FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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City of London: preparing for 'Big Bang', Page 10

World news

Israelis hold 3 for grenade attack

Israeli police last night announced the arrest of three Palestinians accused of responsibility for last Wednesday's grenade attack in Jerusalem in which one person was killed and 69 injured.

The three men, all residents of Arab neighbourhoods surrounding the Wailing Wall – Judaism's most holy site – where the attack took place, were detained last Thursday afternoon and early on Friday.

They were said to have confessed being members of the radical Islamic Jihad group, not the mainstream Palestine Liberation Organisation whose claim of responsibility sparked off last week's bloody cycle of violence in southern Lebanon. The hunt for the gang's ringleaders was said to be still continuing.

Four die in Punjab

Four people were shot dead in Punjab by suspected Sikh extremists as India's main Hindu opposition group claimed that Prime Minister Rajiv Gandhi had failed to restore peace to the northern state.

Manila ceasefire call

Philippine government representatives and communist envoys have resumed talks aimed at forging a nationwide ceasefire to the 17 year-old insurgency. The talks coincided with the release of two soldiers captured by communist guerrillas three weeks ago.

Greek elections

Greece's conservative New Democracy (ND) opposition appeared set to capture Athens, Piraeus and Salonika from the governing Socialist Party (Pasok) in run-off elections for mayors in about 250 municipalities around the country.

Air passengers hurt

Six passengers were injured when a Scandinavian Airlines System (SAS) aircraft made an emergency landing at Kastrup airport, Copenhagen.

Peace talks ruled out

President Yoweri Museveni of Uganda has ruled out a peace conference with northern rebels and said his government was determined to wipe out insurgency in all parts of the country.

Sandinista 'trial'

Eugene Hasenfus, 45, a captive American in Managua, Nicaragua, faces a Sandinista "people's tribunal" today, accused of working for the US Central Intelligence Agency.

Israel changeover

Israel's parliament is expected to confirm today Likud leader Yitzhak Shamir's takeover as Premier. Page 4

Moscow visit

Danish Prime Minister Poul Schlueter arrives in the Soviet Union tomorrow for a week-long official visit during which he will seek to boost Copenhagen's trade with Moscow.

Saudi peace mission

Saudi Arabian Crown Prince Abdullah flew from Baghdad to Damascus in a new bid to help ease tension between Iraq and Syria.

SA strike ballot

South Africa's National Union of Mineworkers agreed to resume wage negotiations with employers but went ahead with plans for a strike ballot among the union's 200,000 members.

Doctors strike

Bangladesh shut eight medical colleges as a strike by more than 8,000 state-employed doctors and medical students over job guarantees continued to paralyse hospitals.

Australia wins cup

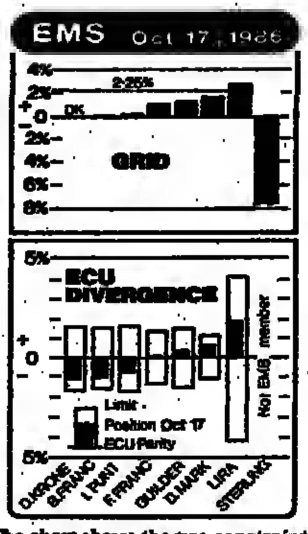
Australia beat England 2-1 in the final of the hockey World Cup in London.

Business summary

Viacom agrees to $2.9bn buyout

VIACOM International, US broadcasting and cable TV group which has been the subject of frequent takeover speculation, has agreed to a $2.9bn management buy-out. Page 19

EUROPEAN Monetary System: The Belgian franc lost ground last week and was placed with the Danish krone as the weakest currency. It was slightly above its worst level, however, helped by limited central bank intervention. A renewed fall



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

in the value of the dollar and a subsequent move into the West German D-Mark increased pressure on the weaker members. The franc and the krone were trading well within their allowed Ecu spreads, both at 51 per cent of their maximum divergence spreads.

AMR, parent company of American Airlines, second largest carrier in US, boosted third-quarter earnings to a record $142.7m, or $1.83 a share from $87.3m, or $1.45 a share last time. Page 19

BANKAMERICA Corporation, financially ailing banking group which announced a top management shake-up last week, lost $23m in its third quarter after crediting over $120m of special gains on property and other asset sales. Page 19

W. R. GRACE, chemicals and natural resources group, suffered an 82 per cent decline in net earnings to $4.3m or 10 cents a share in the third quarter, against $24.8m or 47 cents last time. Page 20

SAINT GOBAIN, French state-owned glass and engineering group, announced that its French operations returned to profit in the January-June period for the first time in four years. Page 20

PHILIPPINES will be seeking terms more favourable than those granted to Mexico when it begins debt rescheduling negotiations with 383 commercial bank creditors next week in New York. Page 5

CATERPILLAR, world's largest maker of earthmoving equipment, plunged into the red for the third quarter, although it maintained its sales level at $1.8bn. Page 20

CONRAD BLACK, Canadian financier, is to enlarge his North American publishing interests through the purchase by the Toronto-based Hollinger group of 34 daily and weekly papers in the US and Canada. Page 20

DIAMOND SHAMROCK, integrated US oil company, expects to report a loss of about $95m in the third quarter. Page 20

CHINA'S trade deficit reached $8.9bn in the first nine months of the year, despite government action to reduce it. Page 4

AIR TRAVEL credit card, Airplus, was launched with the backing of thirteen European airlines. Page 8

Players act out stressful Big Bang rehearsal

BY CLIVE WOLMAN IN LONDON

THE ONLY people you normally find in the City of London's streets on a rainy Saturday morning are tourists scurrying between St Paul's cathedral and the Tower of London, British Telecom maintenance workers digging up the road and builders exploiting their weekend freedom to manoeuvre.

Since the five-day week was introduced in the 1960s, the classic City gent with pin-striped suit and umbrella has disappeared. But this weekend he re-emerged, in honour of the London Stock Exchange's dress rehearsal to test out the new methods of trading for the Big Bang deregulation of business on October 27.

Some participants seemed embarrassed by their formal attire as they hurried along the deserted streets in the early morning. Mr Andrew Jamieson, the finance director of stockbrokers Panmure Gordon, said he was only wearing his suit because he had been obliged to stay in central London on Friday night. Others found a deeper rationale. "If we are going to get all hot and bothered for the sake of a rehearsal, I suppose we ought to try out being hot and bothered in a suit," said Mr Brian Carter, of Barclays deZoete Wedd (BZW).

Suit and tie were compulsory on the stock exchange floor and in the expansive trading rooms of most of the large securities houses which came into use for the first time. However, the US securities houses permitted brightly-coloured open-necked shirts and other expressions of individuality and golfing attire was common in the executive offices, if not the trading floors, of the British firms.

The journey to work was as stressful as normal with standing room only on some of the trains to the south of England. Happily, many trains were diverted into the City's Cannon Street station, which is normally closed at weekends. The reason, however, was not a newly-found ability to anticipate customer demand by British Rail, but just engineering works blocking the line to Charing Cross.

Work began early in the tower blocks of the City's eastern wards. At 7.30am, isolated rows of strip lighting started coming on and shining through the mist and low-lying cloud, as the newly integrated firms of stockbrokers and jobbers (market-makers) prepared to log on for the first time to the stock exchange's Automated Quotations system (Seaq).

The stock exchange set a 9am deadline for the inputting of 30,000 share prices by the market-makers. The prices are intended to show up

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Defence ministers worried over US 'zero option' plan

BY LIONEL BARBER IN WASHINGTON AND DAVID BUCHAN IN LONDON

DEFENCE MINISTERS of the major European countries are likely to tell the US tomorrow they have serious reservations about a total pull-out of US medium range nuclear missles from Europe.

The possibility of a zero option European missile deal – the withdrawal by the Americans of their cruise and Pershing 2 missiles from Europe in exchange for a Soviet withdrawal of their SS20s in Europe – was raised a week ago with the Reykjavik summit between President Ronald Reagan and Mr Mikhail Gorbachev, the Soviet leader.

European worries are expected to be expressed at the Nato Nuclear Planning Group meeting at Eleneagles in Scotland, which opens tomorrow.

The meeting could be the scene of a major row if Mr Caspar Weinberger, the US Defence Secretary, gives vent to what the Americans see as Europe's two-faced attitude.

The US yesterday adopted an optimistic stance on the prospects for an agreement on intermediate nuclear weapons following the summit and made a low-key response to the Soviet announcement that it was expelling five US diplomats.

Mr George Shultz, the US Secretary of State, said yesterday that the US would protest and "take some action" against the Soviet Union for the expulsions, but he declined to elaborate. A statement by Tass, the official Soviet newsagency, said the diplomats, all of junior rank, had been engaged in activities "incompatible with their official status."

Mr George Shultz, US Secretary of State, said yesterday there was a good chance of concluding an agreement with the Soviet Union for further limiting and monitoring nuclear weapons tests, Reuter reports from Washington.

He also expressed interest in reports that Moscow might be prepared to agree to some testing and research of the Star Wars anti-missile programme outside the laboratory.

The Soviet move follows the expulsion of 25 Soviet diplomats at the United Nations headquarters in New York who were engaged in spying, according to the US Administration. The last batch of Soviet diplomats left the US last week.

The latest round of expulsions raises the threat of tit-for-tat moves which could antagonise either superpower. But Washington appeared to be unwilling to raise the stakes too high in the light of the Administration's campaign to portray the Reykjavik summit as a success.

The US European rift over Euromissile negotiating strategy, and open disagreement between Nato's military and political officials in the past week, has, however, undermined its efforts to represent Reykjavik as a potentially enormous breakthrough in arms control.

Mr Shultz and Admiral John Poindexter, national security adviser, yesterday addressed European complaints about lack of consultation before the summit. They said in interviews on US television that the wideranging arms proposals discussed at Reykjavik, "which included a framework agreement on eliminating intermediate nuclear ballistic missiles in Europe and a 50 per cent cut in strategic missiles in five years," had been outlined in a letter earlier this year from President Reagan to Mr Gorbachev.

Admiral Poindexter said: "The President's view on nuclear weapons, specifically nuclear ballistic missiles, has been well understood for a long time." He refused to com-

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GM expected to sell subsidiary in South Africa

BY ANTHONY ROBINSON IN JOHANNESBURG

GENERAL MOTORS is expected to announce this week the sale of its South African subsidiary to local interests. Mr Bob White, the managing director, said last night that the subsidiary would soon make a detailed statement about the future of its operations.

"The interests of motorists, our 200 dealers and our 3,000 employees in Port Elizabeth will not be prejudiced," Mr White added.

His statement follows the warning last week by Mr John Wilson, the chairman of Shell South Africa, that the company may pull out unless the government hastens the end of apartheid. Mr Wilson, who is also the chairman of the Federated Chamber of Industries, one of the three main employers organisations effectively repeated in stronger terms a similar warning last week by Mr Lo van Wachem, managing director of the Anglo-Dutch group.

In a letter to the multinational company's chief executives around the world, Mr van Wachem underlined that Shell wanted to see faster political change in South Africa and was actively involved in preparing blacks for a greater role in post apartheid society. While criticising the pace and direction of reform in South Africa he added that it would be morally weak of Shell to wash its hands of further social responsibility towards its employees and the black community generally.

Last week Mr Roger Smith, GM's chairman in Detroit, said that the world's largest vehicle manufacturer was reviewing its South African commitment because of lack of progress towards ending apartheid and the deteriorating local economy. Mr Smith's remarks in an interview with the Detroit motor industry newspaper appeared to catch its South African management unawares, although the future of its operation in that country has been under periodic review since 1971.

General Motors South Africa, which has a car and truck assembly plant and a railway locomotive plant in Port Elizabeth, has seen its share of a declining and overcrowded local market drop from 11.1 to 9.2 per cent over the first nine months of this year. It has been seeking a local partner for some time. Talks with the local subsidiary of West Germany's BMW aimed at exploring the possibility of a joint assembly line failed last year. On Friday, BMW denied that it was still interested in a deal with GM and said it intended to carry on as an independent operation.

Members of industry are speculating that Sanlam, the Afrikaaner finance and insurance house, is a possible buyer. Last year it took over the Nissan franchise when it bought control of the Messina mining and industrial group.

The South African car market is now dominated by the major Japanese manufacturers, including Toyota, Nissan, Mitsubishi, Honda, Isuzu and Hino and all three major West German motor-companies, Mercedes-Benz, BMW and Volkswagen.

All Japanese models are assembled under licence due to the longstanding Japanese ban on direct investment in the country. The West German operations, however, are fully-owned subsidiaries which have recently completed major investments in new models and updated their facilities. Their investment plans were all designed before unrest broke out in September 1984

Last year Ford reached an agreement with the car-making division of the Anglo-American Corporation, South Africa's largest industrial and mining group, when it took a 40 per cent stake in a new joint company called Samcor.

Nut price rise may lead to crunch for traders

By Andrew Gowers in London

HOWEVER ELSE it is remembered, 1986 might just merit a mention in the history books as the year of the Great Nut Crunch.

Peanuts have almost trebled in value over the last 12 months and almonds have more than doubled, as a result of severely reduced crops in the US, the largest producer. Hazelnuts leapt upwards a few weeks ago in response to fears of damage to the key Turkish crop caused by radiation from the Chernobyl nuclear disaster, although these have since faded and prices are back where they were.

Pecans and cashews are firm. Even the poor old brazil nut, the price of which has been in the doldrums for much of the last two years, has sprung into life over the past few weeks as a result of speculative buying in New York.

Although there have been shortages of individual nuts before – notably the peanut scare of 1980 – traders cannot recall a previous occasion when the prices of so many nuts rose at the same time. "This is most unusual" said one big trader in London.

The rise in world market prices is also bound to feed through eventually into the shops, in the form of higher prices for nuts and for items such as marzipan. Traders insist, however, that any increase in retail prices will be much smaller and slower than the movement in bulk values, and will probably not have a significant effect on the all important Christmas market. This is because many nut roasters, salters and other users like confectionery makers saw the trouble coming and took out adequate cover by buying forward.

The two most stricken nuts are the almond and the peanut, or groundnut as it is otherwise known. Almonds have been steadily rising in price since it became clear that the Californian crop, which in normal years accounts for well over half the world total, had been cut by 50 per cent this year. This was because a large proportion of the state's almond blossoms were washed off the trees in February before the bees could perform their vital pollination work.

Nor is there much chance of the shortfall being made up from Spain, which is the second largest producer but which has itself had a slightly reduced crop this year. "There are simply not enough almonds to go round," said one trader.

This is a big blow to an industry which has worked hard to boost demand for its product over the last

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Pöhl visits Thatcher as pound faces test

BY ROBIN PAULEY

A CRUCIAL week for sterling opens today with a visit to London by Mr Karl Otto Poehl, president of the West German Bundesbank, to discuss the sharp fall in the British currency. He will have talks with Mrs Margaret Thatcher, the British Prime Minister, Mr Nigel Lawson, Chancellor of the Exchequer, and Mr Robin Leigh-Pemberton, Governor of the Bank of England, against a backdrop of currency market belief that only a further rise in UK interest rates can stop sterling's fall.

Mr Lawson and Mr Leigh-Pemberton have long agreed with Mr Poehl's view that long-term security for sterling will be achieved only by full British membership of the European Monetary System. But Mrs Thatcher remains resolutely opposed. Mr Poehl is expected to warn her today that there is a limit to support which the Bundesbank can give to sterling outside the EMS if the crisis persists.

Mrs Thatcher's objections to EMS have traditionally been political rather than economic: she believes that effective control of UK interest rates would pass to the Germans. And she fears that once in the exchange rate mechanism sterling will attract a flood of speculative money.

At the first sign of trouble in the UK economy this money could take flight rocking sterling to the extent that a devaluation or large interest rate rise would be dictated by the EMS rules. This could be politically undesirable if it occurred shortly before a British general election.

Mrs Thatcher will be under strong pressure from British Members of Parliament to make a clear statement about the sterling crisis and the UK economy's prospects when the House of Commons returns tomorrow from its summer recess.

The market view of last Tuesday's 1 percentage point rise in bank base rates to 11 per cent was "too little, too late." Little reassurance was found in the Chancellor of the Exchequer's statement of economic strategy in the City of London on Thursday in which he made light of the rapid broad monetary growth and the very fast rise in bank lending to the private sector.

By the close of business on Friday three-month interbank rates in London were at 11⅝ per cent indicating pressure for a further rise of 1 percentage point in base rates. Sterling also hit new lows on the Bank of England's trade-weighted index of its value against a basket of currencies

If the pound quickly slides further the inflation rate, which recorded its biggest jump for 18 months in September, will rise faster. But if confidence in sterling is restored by a further increase in base rates, the UK mortgage rate, already set to rise by 1 percentage point, will be raised further.

Mr Lawson is hoping to avert the pressure for another interest rate rise until Thursday when the latest UK balance of payments figures will be published. Sterling's problems were made much worse by the figures for August when the current account slid sharply into deficit.

The September figures are widely expected to be better, although the prospect of persistant and substantial deficits from about the end of this year remain.

HK group in Soviet satellite talks

OFFICIALS from Jardine Matheson, the Hong Kong-based trading company, are discussing with the Soviet Union how the company could act as an intermediary in Moscow's efforts to launch satellites for Western governments and companies.

A team from the trading group recently visited Moscow for high-level talks with officials from Glavcosmos, the Soviet civilian space agency. The Soviet authorities are studying the proposal and no decision has been reached.

The talks in Moscow involved representatives of London-based Jardine Glanvill, an insurance broking subsidiary of Jardine Matheson. Jardine Glanvill is part of Jardine Insurance Brokers, one of the world's top 12 insurance brokers with offices in 17 countries.

The discussions were prompted by the Soviet Union's anxiety to exploit the suspension in flights, caused by a run of technical faults, of the West's two main space launch vehicles, Europe's Ariane and the US space shuttle.

The delays have led to frustration among organisations such as US telecommunications corporations which need to place satellites in space but find there is a long queue for launch slots. One such company, Western Union, recently said it would launch a satellite with a rocket owned by China, which, like the Soviet Union, wants to enter the commercial launcher business.

The Soviet Union has said it

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PROFILE OF STEINKUHLER

I. G. Metall's most likely man

BY PETER BRUCE IN BONN

LIKE MANY of his countrymen, Franz Steinkühler likes an elongated turn of phrase. It is, he says, "not improbable" that he will be elected president of the biggest trade union in western Europe, the I. G. Metall, in Hamburg this week.

Charming, and with a reputation for being cruel to employers, he has wanted the job for a long time but his age has always been a problem.

Even now, at 49, his election which is a certainty, will be a break with tradition. I. G. Metall's 2.7m members have generally preferred older men.

Doubts about his age, however, pale next to what are, for the conservative government and West Germany's big motor, steel and engineering industries, serious questions about his commitment to the gentle consensus that has governed employer/union relations since the end of the war.

"Some employers are taken aback by the fact that I take problems to them direct and unvarnished," he said in an interview in the summer. As a metalworker's leader in Stuttgart, Mr Steinkühler, in his mid-thirties, led, and won West Germany's first-ever strike not called about pay.

Although he has led other strikes since, his fame, and the reason employers fear his election, was sealed in 1984 when he masterminded a strike for a shorter working week. It brought the West German motor industry to a standstill for seven weeks in the summer.

Mr Steinkühler's simple tactic was to organise strikes in a few key component supplier factories and allow those laid off elsewhere as a result to be paid benefit by the state.

The government closed the benefits loophole earlier this year, but not before Mr Steinkühler's union had led a six-month-long bitter and public campaign against the move.

The strike over working hours and the campaign to keep the benefits door open have helped make relationships between the government and the unions worse than at any time since the end of the Second World War.

Franz Steinkühler: outside the rules

Neue Heimat's bankers extend debt moratorium

BY ANDREW FISHER IN FRANKFURT

"IS THE creditworthiness of Neue Heimat now greater than that of the old Neue Heimat?" The question was put to Mr Horst Schiesser, the Berlin businessman who owns the financially troubled housing group, after he had spent the best part of nine hours trying to soothe the fears of banks which have lent it very large sums of money.

His answer was mildly reassuring, the more so as he had just announced an agreement with the banks to continue a moratorium on debt repayments. "I should like to say, in principle, yes."

West German police yesterday arrested Mr Alfons Lappas, chairman of the trade union-owned holding group, BGAG, for refusing to testify to a parliamentary commission in Bonn about the Neue Heimat sale.

Mr Lappas was reportedly arrested in Hamburg after attending the opening of the metal workers' union conference. Last week the committee, having been told by Mr Lappas that he would not discuss business secrets with them, applied for a court order to jail him

Mr Schiesser, who owns a chain of bakeries and also has other business interests, last month paid a nominal DM 1 (35p) to purchase Neue Heimat, with around 190,000 homes, from the trade unions in a deal which has caused extensive political ripples and tarnished the standing of the union movement.

After years of scandal and bad management, Neue Heimat was sold to Mr Schiesser by the trade union federation, the DGB.

Outraged in a different way by the affair was Mr Manfred Meier-Preschany, the former Dresdner Bank director who had been asked by BGAG to advise on how Neue Heimat could be restored to financial health.

He told the committee that he knew nothing of the sale to Mr Schiesser while he was talking to creditor banks—they are owed DM 12bn of Neue Heimat's total DM 17bn debts—about sorting out the housing concern's muddled affairs. "I felt I had been duped."

Since the banks had also been left in the dark about the sale to the Berlin bakery owner, last Friday's talks were crucial to his chances of trying to turn Neue Heimat round.

Mr Schiesser professed himself satisfied with the meeting, at which the banks agreed to set up a working group to co-ordinate the interests of all bank creditors

They also agreed to maintain the debt moratorium until the end of 1988.

East bloc dissidents issue joint appeal

By Leslie Colitt in Berlin

MORE THAN 100 dissidents in four East European countries have pledged to "struggle" for political democracy, pluralism and the "peaceful reunification" of Europe.

Their rare joint appeal was issued to mark the 30th anniversary of the Hungarian uprising on Thursday. It was signed by leading opponents of the communist governments from Hungary, Poland, Czechoslovakia and East Germany.

Among the 49 Hungarian signatories was Mr Laszlo Rajk, son of the Communist Foreign Minister executed after a show trial in 1949.

The 29 Polish signatories included Mr Adam Michnik and Mr Jacek Kuron. Supporters of Czechoslovakia's Charter 77 civil rights group and the East German Independent Peace Movement also signed the statement.

A preface to the appeal said that since suppression of the Hungarian, Polish and East German uprisings and the Prague Spring of 1968 life "for many became easier" but that the "basic demands" of the uprising were not realised.

Plans to liberalise EEC steel cartel face resistance

BY QUENTIN PEEL IN BRUSSELS

PLANS TO liberalise the EEC's steel cartel, which sets fixed prices and production quotas for two-thirds of Community steel output, seem certain to run into strong opposition when industry ministers meet in Luxembourg today.

The determination of the European Commission to press ahead with liberalisation of the steel regime, to scrap all quotas by the end of 1987, faces resistance from many member states under pressure from their own major steel producers.

West Germany in particular, backed on different issues by Belgium, Luxembourg, France, Italy and the UK, is opposed to moving so fast in dismantling the controls set up in 1980 under the so-called Davignon plan.

The regime has been remarkably successful in allowing steel production capacity to be cut by more than 31m tonnes, to the present level of around 140m tonnes in the Community states involved (excluding Spain and Portugal). However, the Commission estimates there will still be excess capacity of nearly 22m tonnes in 1990 – which can be removed under the incentive of increased competition.

The plan before the ministers is to take the following categories out of the quota system – galvanised sheet, wire rod, merchant bars, and the lighter variety of heavy sections – amounting to some 20 per cent of production.

The major steel manufacturers are strongly opposed to further liberalisation at the present, arguing that the market is too weak, and prices will fall below viable operating levels as a result.

The Commission maintains, on the other hand, that the conditions of "manifest crisis" in the industry, which justified the creation of the EEC cartel system, have now been removed. The present quota system discriminates against small independent producers – strongest in Italy – who could otherwise take a larger share of the market for the products they propose to liberalise, officials say.

West Germany, once most committed to a liberal steel regime in the Community, now seems the most determined to preserve the cartel. German manufacturers have been particularly vociferous in lobbying – partly, Brussels officials believe, because they also face repaying a portion of their state aid because of making exceptional profits in the first half of the year.

Coalition fails to solve Flemish dispute

By Tim Dickson in Brussels

BELGIUM'S centre-right coalition government will once again be fighting for survival this week after the collapse of efforts to settle the country's bitter language dispute.

The new crisis was precipitated late on Friday night when a compromise "solution" backfired and forced the resignation of Mr Charles-Ferdinand Nothomb, the Interior Minister.

Earlier on Friday Mr Nothomb had confirmed the appointment of Mr Roger Wynants as mayor of Les Fourons, the tiny area close to the Dutch border where a previous mayor Mr Jose Happart was recently sacked for refusing to display an adequate knowledge of the official local language, Flemish.

Mr Wynant, who as a French-speaking Flemish teacher is apparently an ideal candidate, had second thoughts. He announced he would only accept the post on conditions which would have been unacceptable to the Flemish-speaking Christian Democrat elements in Mr Wilfried Martens' four-party coalition government.

The situation is made no easier by the fact that Mr Happart was on Friday elected first alderman of Les Flourons, de facto mayor in the absence of a new appointment.

Observers in Brussels last night noted that Mr Josef Michel—the new Interior Minister sworn in on Saturday—not only has experience of the job in a former administration but also has first-hand knowledge of dealing with Belgian community affairs.

Sabena and SAS discuss co-operation

By Kevin Done in Stockholm

TWO European airlines SAS (Scandinavian Airlines System), and Sabena, the Belgian state-owned airline, have decided to intensify talks about future co-operation, chiefly on intercontinental routes.

Much of the airline industry is losing money on its intercontinental traffic, and SAS and Sabena are discussing forms of co-operation which would make their long-haul routes more competitive.

Some of the smaller and medium-sized European airlines are concerned that in an era of freer competition they will face a tough fight to maintain their intercontinental networks and survive as more than just feeder services to some of the main European airports such as London, Frankfurt or Schiphol.

"We must develop the Scandinavian traffic system with a strong intercontinental network," said an SAS spokesman.

The advantage of a co-operation scheme with Sabena would be that the two airlines could exploit each other's existing strengths. SAS would clearly like to be able to exploit the catchment area for traffic around Brussels.

Since earlier this year SAS has had no flights to Africa, whereas Sabena is relatively strong on African routes. By contrast SAS has more fully developed services to south-east Asia.

SAS is also holding separate talks with Finnair, the Finnish airline about possible co-operation on long-haul traffic

OVERSEAS NEWS

Dr Garret FitzGerald: spirited rearguard action

Fianna Fail opinion poll lead

By Hugh Carnegy in Dublin

IRELAND's fragile Fine Gael-Labour coalition, which this week must try to win a knife-edge confidence vote in parliament and regain the confidence of the nervous Dublin money markets, was dented yesterday by an opinion poll showing Mr Charles Haughey's opposition Fianna Fail party increasing its lead.

Dr Garret Fitzgerald, the Prime Minister, fought a spirited rearguard action over the weekend, insisting that the government would win Thursday's confidence vote.

With government and opposition parties divided in theory only by the speaker's casting vote, the coalition cannot afford slips if it is to continue to the end of its term in a year.

In an attempt to halt a surge in interest rates which has followed big capital outflows due to the cheapness of sterling and worries about overruns on this year's current budget deficit, Dr Fitzgerald was adamant that he would not devalue the Irish pound—as the government did in August—and that the coalition would agree spending cuts in its January budget to control the public finances.

He blamed lack of British action to control sterling as the chief cause of the rising cost of Irish money.

In spite of his insistence that the government would survive, Dr Fitzgerald did look forward to a general election in his speech to the Fine Gael annual conference on Saturday night. Because the Labour Party has already said it would not take part in another coalition, he said the government was not standing for re-election.

Fine Gael would run on its own policies, but would not rule out entering another coalition, he said in an apparent reference to the new Progressive Democratic Party.

The chances of this are slim, according to the latest Sunday Independent/IMS opinion poll. Excluding "don't knows" it gave Fianna Fail 53 per cent support, up from 46 per cent in June.

Fine Gael had 27 per cent, the Progressive Democrats 9 per cent end Labour 6 per cent.

Mr Haughey's personal standing has also forged ahead to 40 per cent, compared with 27 per cent for Dr Fitzgerald.

In the face of such figures, government ministers have increasingly turned on Mr Haughey, accusing his past governments of responsibility for the economic decline by reckless public spending and borrowing, and ettacking his latest statements criticising the Anglo-Irish agreement.

Moscow expels five US envoys 'for illegalities'

BY PATRICK COCKBURN IN MOSCOW

THE SOVIET UNION yesterday expelled five US diplomats in an apparent act of retaliation for the expulsion of 25 Soviet diplomats at the UN headquarters in New York accused by the US of espionage.

A statement by the Soviet Foreign Ministry said that four diplomats at the US embassy in Moscow and one at the US consulate in Leningrad had been engaged in illegal activities against the Soviet Union.

"For the actions which are incompatible with their official status the above-mentioned workers of the embassy and the consulate-general were declared to be *personae non gratae* and were asked to leave the USSR," the official Soviet news agency Tass said.

A US embassy spokesman confirmed the expulsions of the diplomats, all of junior rank, but would not discuss details.

The Soviet Foreign Ministry statement drew the US embassy's attention "to the continuing use of American diplomatic missions for illegal activities against the Soviet Union" and demanded they cease.

The last five Soviet diplomats were due to leave New York yesterday.

The Tass statement, as is usual in the reciprocal expulsion of diplomats, makes no mention of the UN expulsions.

Mr Eduard Shevardnadze, Foreign Minister, had made clear before the summit in Reykjavik, Iceland, between Mr Mikhail Gorbachev, the Soviet leader, and US President Ronald Reagan, that the Soviet Union would retaliate if the 25 Soviet diplomats were expelled. Both sides delayed acting until Mr Reagan and Mr Gorbachev had met, however.

Mr Gennady Gerasimov, the Soviet official spokesman, has been at pains to defuse the expulsions issue saying that there were only 198 Soviet diplomats at the UN, well below the total of 218 demanded by the US.

By expelling only five US diplomats Moscow may feel it has done the minimum necessary to keep its promise of retaliation without provoking tit-for-tat action by Washington.

Kuwait demand holds up Opec agreement

BY RICHARD JOHNS IN GENEVA

AGREEMENT BY the Organisation of Petroleum Exporting Countries (Opec) on an extension of its interim pact on output control and quotas is continuing to be held up by Kuwait's unyielding demand for a 10 per cent increase in its quota over the next two months.

Sheikh Ali Khalifah al Sabah, Kuwaiti Minister of Oil, said yesterday that his assent to any Opec accord was dependent on the others conceding his state an extra 90,000 barrels a day on top of the 900,000 b/d permitted under the agreement covering September and October.

Ministers yesterday were engaged in intensive consultations over how the arrangement might be amended to give up to 200,000 b/d of production to members most insistent of obtaining a larger share.

Kuwait and Saudi Arabia appeared to have dropped their stipulation that a "roll over" of the interim pact should be conditional on a fundamental renegotiation of the quota system, with the aim of introducing a new one in 1987. There is general recognition that the task could not be completed by the end of this month.

Iran seemed almost certain to reject any revision accommodating Kuwait's demand. Yet, in practice, this may not matter to the market because its exports are being constrained as a result of Iraqi military pressure on its Kharg Island export terminal.

Western analysts now believe that the Kuwait Oil Minister was given no room for manoeuvre because his Government is determined to present a "triumph" in Opec to placate domestic public opinion. This follows the unpopular decision of the ruling family to suspend the National Assembly early in July — a measure sought by the Saudi regime.

Venezuela and Iran, however, would have acute difficulty in justifying a higher quota for Kuwait which still enjoys substantial financial reserves.

At the weekend Saudi Arabia once again threw its weight behind Kuwait's claim which was still opposed by most other members. Sheikh Ahmed Zaki Yamani, the Kingdom's chief delegate, told the Kuwaiti newspaper Al Watan that Saudi Arabia supported Kuwait's claim.

He expected an increase for Kuwait of 45-50,000 b/d and another 45,000 b/d from the beginning of December. Failure to reach an accord could mean a collapse in prices, he warned.

Asked yesterday afternoon whether Kuwait would be satisfied with assent to an extra allocation in two tranches, Sheikh Ali Khalifa said: "I don't know. If that is the conference decision I would call Kuwait but I wouldn't call Kuwait for a single barrel less than 90,000 b/d."

Kuwait's position all along had been to accept nothing less than parity with Libya which has a quota of some 950,000 b/d.

On Saturday following an adjournment, called partly so that Saudi and Kuwaiti delegations could consult their capitals, the official Saudi Press Agency said that "in continuation of the great sacrifice the Kingdom has made to safeguard Opec and consolidate its progress," it was prepared to stick to its current quota of 4.353m b/d until the end of the year.

Turkish banker to head key ministry

By David Barchard in Ankara

THE GOVERNOR of the central bank, Mr Yavuz Canevi, is to become Under-Secretary of the Treasury and Foreign Trade.

Mr Canevi succeeds Professor Ekrem Pakdemerli who resigned in July and unsuccessfully contested a seat in the by-elections on September 28.

Mr Canevi's post is regarded as one of the most powerful in the country with control over almost all decisions on the economy.

Dr Rüstü Saracoglu, a US-trained economist, is expected to succeed Mr Canevi. Mr Saracoglu, who returned to Turkey two years ago, has worked on developing money markets in Turkey during his time at the central bank, while handling negotiations with the International Monetary Fund and other international agencies.

Meanwhile backbench MPs in the ruling Motherland Party have criticised a Cabinet reshuffle on Friday for being too limited.

The Prime Minister sacked two ministers and demoted three others, including the former government spokesman, Mr Mesut Yilmaz, in a move apparently intended to refurbish the image of his government after its by-election setback.

Mr Yilmaz, who becomes tourism minister, has been replaced by Mr Hasan Celal Güzel, a new entrant to parliament, who is in favour of reaching an accommodation between the Prime Minister and his arch-rival Mr Süleyman Demirel.

REPUBLICANS VULNERABLE IN SENATE ELECTIONS

Reagan campaigns for his supporters

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

ALMOST three weeks after its scheduled adjournment, the 99th US Congress has completed work on a plethora of legislative proposals, freeing its members to head back to their constituencies to campaign for re-election.

This year, a man whose name is not even on the ballot, Republican President Ronald Reagan, ranks among the most active campaigners. In 1984 Mr Reagan was accused of spending too much time campaigning for his own re-election and not making enough effort to ensure that as many Republicans as possible returned to Washington.

This year, many of the 22 Republican Senators standing for re-election are conservatives who first came into office in 1980 when Mr Reagan's national political agenda helped to give them an edge over their opponents.

Now, several of them, including Senator Mark Andrews in North Dakota, James Abdnor in South Dakota and Slade Gorton in Washington State, look vulnerable. If they fall, Mr Reagan could find himself facing a US Senate controlled by the Democratic Party when Congress reassembles next January.

This prospect, which would make his life much harder, helps to explain why the President has been criss-crossing the country, speaking on behalf of Republican candidates. It also explains the unprecedented media blitz the White House launched last week following the Reykjavik summit meeting with Soviet leeder Mikhail Gorbachev.

Political analysts in Washington such as Mr Ed Rollins, the man who managed the President's re-election campaign in 1984 but who is now no longer in the White House, see the President ettempting to inject a national theme into the congressional elections.

The White House is perceived to be trying to bring Mr Reagan's personal popularity end the patriotic themes with *which he is identified to bear* in the campaign.

Many question whether Mr Reagan can accomplish his ambitious goal. His prospects have hinged partly on the fact that Moscow too has found it in its interests to say that the summit was a success. Had Mr Gorbachev retreated to the Kremlin in fury, Mr Reagan would have found it difficult to argue that US-Soviet relations were improving.

Yesterday's expulsion from Moscow of five US diplomats, an indicator of continuing US-Soviet tensions, is thus a reminder of the possible dangers of using superpower relations as an element of campaign strategy.

Congress spending cuts in doubt

BY LIONEL BARBER IN WASHINGTON

THE 99th US Congress edjourned on Saturday with big doubts remaining about its final approved bill to cut the federal deficit.

The Senate passed e measure to cut \$11.7bn (£8bn) from the deficit, bringing Congress within striking range of the \$144bn deficit target for fiscal year 1987. But most of the cuts are one-off savings and accounting gimmickry.

Lawmakers forecast e tough battle to meet the \$108bn target for fiscal 1988 as set out in the Gramm-Rudman-Hollings law to force a balanced budget by 1991.

The wrangling over federal *spending cast a shadow* over Congress which had to extend sitting for two weeks to get agreement on a \$576bn omnibus appropriations bill, signed by President Reagan at the weekend.

Among the measures approved in the final days are:

Defence spending: Congress held the military budget to about \$290bn, a cut of almost \$30bn from the President's request. The strategic defence initiative (SDI), the space-based defence system, will have to make do with \$3.5bn, around \$1.8bn less than the Administration wanted.

Immigration: Congress ended five years of debate by overhauling the laws, epproving amnesty for several million aliens, penalties against employers for hiring illegal aliens and tougher border enforcement.

Foreign policy: The President secured final approval for \$100m in military and other aid for the Contra rebels fighting the leftist Sandinista government in Nicaragua. Some \$200m economic assistance was granted to the Philippine Government. But, in an earlier significant move, Congress overrode a Presidential veto on new economic sanctions against South Africa.

Environment: The President, with an eye on next month's elections, signed an expansion of the toxic waste clean-up programme amounting to \$9bn. But e stricter clean water act faces a possible veto.

Drugs: *Congress imposed* a \$1.7bn programme to curb the spread of drug ebuse, but drew back from imposing the death penalty in drug-related crimes.

Farms: Congress approved laws to allow the Farm Credit System, a network of borrower-owned co-operative banks, to spread its losses over the next 20 years.

Commodities: Congress approved laws to extend for three years funding for regulation of the commodity futures market and to expand the leveraged contract industry which provides for the sale on purchase of a commodity at e fixed price at some future date but which are not traded on exchanges.

Import fees: The Deficit Reduction Bill imposes a tax of 0.22 per cent *on almost all imports* starting December 1 1986. It will fall to 0.17 per cent on October 1 1987.

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OVERSEAS NEWS

China's imports rise despite curbs

BY ROBERT THOMSON IN PEKING

CHINA'S trade deficit reached US$8.9bn in the first nine months of this year, despite tighter import controls and government plans to reduce the deficit substantially this year.

The government had planned to cut imports, but in the first nine months, import volume rose 5.1 per cent on the same period last year, while exports increased 14.8 per cent to $21.4bn, according to figures released by the State Statistical Boreau.

Japan, which had a bilateral trade surplus last year of almost $7bn has been hardest hit by import restrictions this year, particularly those on consumer durables and motor vehicles. Imports from Japan were down 21.4 per cent in the first nine months, whilo exports were down 15.7 per cent, largely because of the slump in world oil prices.

A continuing trade deficit has become a sensitive political issue after last year's deficit of $14.9bn, and some senior Communist Party members are wondering if the country's trading partners are getting the better of China

The period saw a 57.6 per cent increase in imports from the Soviet Union, while exports to the Soviet Union rose 51.27 per cent. Exports to the European Economic Community jumped 80.1 per cent while imports rose 33.3 per cent, and exports to the US increased 14.4 per cent, while imports rose 4.4 per cent.

Asked bow China was covering the deficit when there appears to have been little movement in the country's foreign exchange reserves, a State Statistical Bureau spokesman said the country was delaying payment on imports, borrowing from abroad, and selling gold reserves.

The official claimed $1bn had been borrowed in the first nino months, highlighting again the continuing conflict between statistics released by different Chinese departments. The Ministry of Foreign Economic Relations and Trade claims the country borrowed $2.5bn in the first half of this year.

Other figures released by the statistical bureau show that after a sluggish start, China's industrial prodoction is likely to grow et the targot rate for this year of 7 per cent. Industrial growth in the first nine months was 6.4 per cent.

Investment in fixed assets is still too high for the Government's liking, with an 18.7 per cent increase in the first nine months. However, the increase for the first nino months of 1985 was 33.7 per cent, and prompted tighter controls on bank lending.

The Queen with a small admirer at a concert given by 300 children at the Guangdong Children's Palace on Saturday

'Xian Incident' fails to spoil Queen's visit

BY OUR PEKING CORRESPONDENT

NOT LONG before the Royal Yacht Britannia left the southern Chinese city of Guangzhou (Canton) on Saturday night, Li Xiannian, China's President, sent a message to the Queen and Prince Philip noting that their visit had been "an important chapter in the annals of Sino-British relations."

Perhaps to make certain that Chinese leaders understood that sho enjoyed herself, before leaving, the Queen wrote letters to President Li and Deng Xiaoping explaining that the visit had "set the seal" on good relations and was "exhilarating."

If British officials could have their way, they would rewrite part of that chapter and excise what has become known as China's second "Xian Incident" (the first "Xian Incident" was the capture of Chiang Kai-Shek, the Chinese nationalist leader, by rebel and Communist troops in 1936).

It was in Xian last week that the Duke of Edinburgh apparently described Peking as "ghastly" and suggested that if one stays too long in China one could get "slitty" oyes.

China's Foreign Ministry has made no official comment on the Prince's controversial remarks, which have also not been reported in the Chinese media. In fact, the official Chinese news agency, Xinhua, mado a point of reporting a pleasant meeting on Saturday between the Prince and peasants.

"Prince Philip went to a rural village where he visited a rice paddy field, a fish pond, a recreation centre, and a peasant's home. He had a cordial talk with the peasants and was warmly received," Xinhua said.

The student at the centre of the "Xian incident," Mr Simon Kirby, 21, of Leamington Spa, regrets having talked to the royal watchers after his now famous chat with the Prince.

British-consciousness was raised, and ordinary Chinese had a far better understanding of British royalty by the end of the week, as the national television news carried long reports about the visitor. How long the British glow lasts remains to be seen. Many countries are after a "special relationship" with China that sets them apart from the pack. In the end the two countries with best claims are Japan and the US, both of which have trade and cultural ties with China of much greater density than does Britain.

Shamir expected to take tougher line on terrorism

BY ANDREW WHITLEY IN JERUSALEM

THE APPOINTMENT of Mr Yitzhak Shamir, the 71-year-old Likud leader, as Israel's ninth Prime Minister is expected to be formally ratified today by the Knesset.

Mr Shamir will bead tho sama nine-party grand coalition that was presided over by Mr Shimon Peres, the outgoing Labour Prime Minister, and is committed to the same basic policy guidelines.

But the Likud leader will undoubtedly take a much tougher stance than his predecessor on Middle East peace negotiations, and on terrorism. Tho latter has become a highly topical subject following Wednesday's grenade attack in Jerusalem, and the subsequent shooting-down of an Israeli Phantom during a retaliatory raid in southern Lebanon.

Reports from Lebanon yesterday said the Israeli airman captured after tha raid by Amal, the Lebanese Shi'ite militia, had been taken to the Syrian-controlled Beka'a region. But it was unclear into whose hands ho had been transferred.

Speaking in Damascus, Mr, Nabih Berri, Amal's leader and Lebanese Justice Minister, suggested that the airman could be swapped for Lebanese and Palestinian prisoners being held by Israel.

There was no immediate public response from tho Israeli Government which appears to be pursuing a twin-track policy of threatening to use force if he is not released and simultaneously using diplomatic channels to make contact with his captors.

Gen Amos Lapidot, the air force commander, said yesterday that the missing man may already havo been taken to Syria.

He added that Israel now believes the loss of the aircraft had not been due to a missile hit, but to an explosion in its undercarriage region. Precautionary checks are to be carried out on all air force warplanes to prevent a repetition he said

The highly controversial issue of Jewish settlements in the occupied territory is also certain to be revived under Mr Shamir, after an absence from the headlines during the Peres years.

Anticipating possible trouble, Mr George Shultz, the US Secretary of State, was reported yesterday to have sent a message to Mr Shamir warning him not to renew construction in the West Bank and Gaza, or to change the status of tho Temple Mount holy area in Jerusalem.

Last week, the English-language Jorusalem Post said it had uncovered plans by Herut, Likud's main component, for a massive new settlement drive in the occupied territories.

Israel to scrap minimum domestic prices for fuel

BY OUR JERUSALEM CORRESPONDENT

A FGAR-REACHING restructuring of the domestie fuel industry, aimed at stimulating competition, has been announced by Israel's Energy Ministry.

The cornerstone of the new policy will be the ending of government-set minimum retail prices for fuel products. In future the Government will only sat a maximum price.

The policy has aroused immediate opposition from fuel distributors but it is likely to be welcomed by consumers who are paying among the highest petrol prices in the world.

The three fuel distributors, two of them private and one state-owned, which currently act as a cartel in dividing up the market, will be compelled to end such arrangements and to compete on equal terms.

The Government is also lifting its present monopoly on oil refining, and will encourage the three companies — Paz, Sonol and Delok — to purchase shares in the two state-owned refineries, at Haifa and Ashdod.

The Energy Minister said no decision had yet been taken on whether the Government would retain a controlling interest.

From January onwards, the distributors will be abla to buy refined prodocts directly from abroad equivalent to 10 per cent of their needs, instead of purchasing crude oil which is then transferred to the state for refining.

The state-run Israel Fuel Authority will, bowever, retain overall responsibility for imports of crude.

The Energy Ministry said yesterday that the changes marked the first stage of a broader plan aimed at opening up the Israeli market. Some aspects need the prior approval of the Ministerial Ecoonmic Committee, the support of which, a spokesman said, had already been assured.

● Iraqi air raids have knocked out the last two working berths at Iran's main Kharg Island oil terminal in the Gulf, shipping sources in tho region said over the weekend, Reuter reports from Bahrain.

SHIPPING REPORT

Opec production doubts depress tanker market

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

UNCERTAINTY surrounding the likely outcome of negotiations over production cuts by the Organisation of Petroleum Exporting Countries continued to depress the tanker market last week.

Events in the dry cargo market were described by brokers as "erratic." Panamax time charter rates in tho East were said to have weakened to around $4,500 to $4,750 per day, while in the Atlantic relative premiums were available for early grain tonnage from the US Gulf.

Denholm Coates, the London brokers, noted, however, that freight rates were still below the levels of 12 months ago despite recent improvements.

In the tanker market, Galbraith's said tonnage was continuing to build up, particularly in the Middla East Gulf, where around 50 vessels of more than 200,000 deadweight tons were available.

The only quoted order for a VLCC (very large crude carrier) from the Gulf was for the Kuwait state oil company KPC, which was reported to have fixed at below Worldscale 20 for a voyage to the East.

Among smaller vessels, Shell fixed an 80,000 dwt tanker from the Gulf to Singapore at Worldscale 47.5, while Yukong was reported to have fixed Worldscalo 35 for a vessel of 140,000 dwt from the Gulf to South Korea.

Brokers said stocks in consuming areas were too high to provide much hope of a return to the levels of activity seen in July and August, even if Opec proved unabla to maintain production cuts.

Trade was said to be "limited" in tha Mediterranean, whare cargoes of 80,000 tons were concluded at littla more than Worldscalo 50 for trips to North West Europe and around Worldscale 60 on the cross-Mediterranean route.

Rates were said to have improved from West Africa, however, with Pecten reported to have paid Worldscale 32.5 for 125,000 tons from Nigeria to offshore Louisiana.

There was a further softening of rates in the North Sea, where a 75,000 tons cargo from the Tees to Philadelphia was fixed at Worldscale 45, while Phillips paid Worldscale 77.5 for 64,000 tons from Flotta to the East Coast of Britain.

World Economic Indicators

UNEMPLOYMENT

		Sept. 86	Aug. 86	July 86	Sept. 85
US	000's	8,329.0	8,027.0	8,190.0	8,271.0
	%	7.0	6.8	6.9	7.1
UK	000's	3,197.0	3,280.1	3,279.6	3,346.2
	%	11.6	12.0	12.0	12.3
		Aug. 86	July 86	June 86	Aug. 86
W. Germany	000's	2,120.2	2,131.8	2,078.2	2,216.6
	%	7.8	7.8	7.6	8.1
France	000's	2,373.5	2,316.0	2,266.0	2,309.9
	%	10.2	9.9	9.7	9.9
Italy	000's	3,085.0	3,105.2	3,169.7	2,854.0
	%	13.4	13.5	13.8	12.4
Belgium	000's	531.4	522.6	477.9	567.8
	%	13.0	12.7	11.7	13.8
Netherlands	000's	710.9	714.0	687.2	776.7
	%	12.4	12.5	12.0	13.6
		July 86	June 86	May 86	July 85
Japan	000's	1,670.0	1,610.0	1,620.0	1,450.0
	%	2.92	2.72	2.7	2.56

Source (except US, Japan): Eurostat

Natural rubber price agreement talks collapse

BY WILLIAM DULLFORCE IN GENEVA

RUBBER producing and consuming countries have failed in their third attempt to negotiate a new price-stabilising agreement.

Talks collapsed late on Friday mainly because the consumers insisted on a mechanism allowing for *more frequent* adjustments of rubber prices in line with market trends.

Mr Ahmad Farouk, the producers' spokesman, said they would urgently convene a meeting of the Netural Rubber Producers' Committee.

The current International Natural Rubber Agreement continues to the end of October 1987 so the failure of the talks will have no immediate effect, although there may be some market *reaction today*.

Both producers and consumers will, however, have to consider the consequences if they beve to start liquidating the present 365,000-tonne buffer stock next October.

The agreement provides for liquidation over a three-year period. Funds equivalent to some $350m (£245m) are tied up in existing stock.

There was bitterness among participants after the collapse *of* the *conference*. It *had* resumed in a promising atmosphere on October 6. The producers had then appeared to open the way for a settlement by dropping their demand for e new reference price of 265 Malaysian-Singapore cents e kilo and agreeing to accept the current reference price of *201.66 cents* as the *starting* level for the new agreement.

On Friday, however, Mr Farouk said the outcome left serious doubts as to whether the big consuming countries, the US, the EEC and Japan, had really wanted e new agreement. Producers now thought it might be the lesser evil to commit rubber to free market forces.

Differences over two points precipitated the final collapse of the talks. One was the producers' demand thet the reference price be expressed in Malaysian ringgits instead of the combined Malaysian-Singapore currency measure. Maleysia, by far the biggest producer, provides about 45 per cent of world exports.

The consumers wanted to keep the present currency arrangement. They also beld out for price reviews at 12-month instead of 18-month intervals and *the introduction* of *automatic* price edjustments.

Investment to head EEC-Asean meeting

By John Murray Brown in Jakarta

MOVES TO try to improve the climate for European investors will top the egenda at the EEC-Asean foreign ministers' meeting in the Indonesian capital Jakarta today.

According to an EEC-Asean joint report on investment, the main obstacles to investment *continue to be: the lack of trade* between Asean partners; the complexity of investment regulations; the wide margin of discretion in applying the regulations; inadequate protection of intellectual property rights, such as patents and trademarks; and inadequate information about investment opportunities.

Although European investment in Asean, comprising Thailand, Malaysia, Singapore, Indonesia, the Philippines and Brunei, has shown a marked increase in the past decade it is still far behind that of Japan, Asean's leading investment partner, and the US.

The report notes that the growth in investment is concentrated in banking and finance rather than manufacturing. Ninety per cent of Britain's investment is targeted at Malaya and Singapore, for *example, with whom the* UK has historic links.

Manila hopes to better Mexico's debt deal

BY STEVEN B. BUTLER IN MANILA

THE PHILIPPINES will be seeking terms more favourable than those granted to Mexico when it begins debt rescheduling negotietions with 383 commercial bank creditors in New York next week, said Mr Jaime Ongpin, the Philippine Finance Minister, at the weekend.

"The Mexico deal bas opened a new horizon," be said.

The Philippines bas $3.6bn (£2.5bn) of commercial debt that falls due during the next six years, in addition to previously rescheduled loans from 1983-85 which would be falling due next year.

Mr Ongpin said he expected creditors would agree to match the 20-year maturity that was agreed to with Mexico, and would better the 13/16 percentage point over Libor (London interbank offered rate) in the Mexico peckage.

The Philippines had e total foreign debt of $26.4bn at the start of the year, although this figure is expected to be revalned upward by ebout $1bn because of the higher dollar valuation of yen-dominated loans in the country's debt portfolio.

Mr Ongpin said that without recheduling the Philippines' debt service ratio would range between 40 and 50 per cent over the next five years. The Government is seeking to lower this to between 26 per cent and 33 per cent to allow the economy to grow faster.

Government economic plans call for the economy to expand by 6.4 per cent annually over the next six years, although some economists consider this target optimistic.

Mr Ongpin said growth this year would be flat or slightly positive, expecting growth in the second half to compensate for the 3.4 per cent decline in the first six months.

He was the most optimistic yet that the economy had moved onto the right track, with growth in imports preceding an expected rise in employment and production.

According to central bank statistics, non-oil imports, excluding raw materials for garments and semiconductors to be re-exported, rose by 33 per cent in dollar terms during the first eight months of the year. Imports of raw materials and intermediate goods rose by 47 per cent, while capital goods imports increased by 24 per cent.

Mr Ongpin based his optimism partly on the strengthened fundamentals of the economy — the etable exchange rete, low inflation, and the end of capital flight that plagued the economy until early this year.

The International Monetary Fund (IMF) is expected to epprove an agreement with the Philippines next Friday whicb will lead to the availability of a $300m compensatory finance facility in November.

This will entomatically trigger the release of $350m of new money from commercial banks that was left undrawn wben an earber IMF agreement was suspended in April.

This will in turn trigger approval of a $300m World Bank economic recovery loan in December. The World Bank *is* also encouraging the Jepanese Export-Import Bank to co-finance another $300m loan. A further $300m loan involving the Asian Development Bank is a possibility.

Mr Ongpin said that last week, applications to participate in the government's debt-for-equity conversion programme had reached $182m, with $18m approved. The programme gives creditors access to cheap pesos for investment in the country.

The government has also announced that an auction system for government treasury bills would be reintroduced from next Friday. Mr Ongpin predicted that this would leed to further declines in interest rates, now about 12.75 per cent for treasury bills.

The government introduced negotieted treasury *bills* et high interest rates—up to 50 per cent—in 1983 to remove excess liquidity from the economy and reign in a raging inflation that peaked at 50 per cent in 1984.

The measures brougbt the economy to e halt, with gross domestic product shrinking by more than 9 per cent over 1984 and 1985. Mr Ongpin said the de cision to return to an anction system reflected the stability thet bad returned to markets.

Accord reached on customs contract

Jaime Ongpin: "Higher revenues"

THE way appears to have been cleared for Societé Generale de Surveillanee (SGS) of Switzerland to be awarded the contract to pre-inspect cargoes destined for the Philippines, Stephen Butler reports from Manila. This follows the resolution of a dispute in the Philippine Government.

The compromise agreement between the Finance Ministry and the Customs Bureau will reduce the number of countries in which SGS was planned to act as an agent for the Philippine Government, while the Philippines will despatch more of its own customs attachés overseas.

Mr Robert Tanada, customs commissioner, had objected to the cost of the SGS service.

Mr Jaime Ongpin, Finance Minister, argued that the cost was irrelevant because of higher revenues that would accrue to the Government.

During a one-and-a-half month period in whieb SGS was inspecting Philippine-bound cargo 79 per cent of cargoes were shown to be under-valued or misdeclared. SGS was *able to* recover revenues equivalent to 11 times the contract value, which is based on 0.85 per cent of the value of cargoes inspected.

Mr Ongpin said that the contract would be worth 300m pesos annually (£10.1m) based on projections from the one-and-a-half month period.

UK NEWS

Labour 'would remain in Nato'

By Michael Cassell, Political Correspondent

LABOUR has no intention of leaving Nato, although it believes the organisation's defence strategy is no longer credible and will be trying vigorously to change it, Mr Denzil Davies, the party's defence spokesman, said yesterday.

Mr Davies said that Labour's non-nuclear defence policy was not incompatible with Nato membership, and that the party was committed to changing Nato strategy on nuclear and conventional defences.

He emphasised that, under a Labour government, Britain would stay in Nato, even if other member nations insisted on the retention of nuclear weapons, because the organisation still represented the best collective defence option for the west.

Mr Davies said in an interview on independent television: "We will still live within a nuclear Nato, but will be pushing at a door which we believe is slightly ajar." As a sovereign state Britain was free to remove all US nuclear bases from its soil, a decision which he hoped would a catalyst for changing present Nato defence policies.

ENGINEERING EMPLOYERS REJECT GOVERNMENT PROPOSALS

Profit wage-rise link rejected

BY PHILIP BASSETT, LABOUR EDITOR

GOVERNMENT PROPOSALS for linking pay rises to profits are firmly rejected today by the largest single-industry employers' body, the Engineering Employers' Federation (EEF).

Its unfavourable response to the Government's plans for profit-related pay (PRP) is a blow to ministers' hopes of securing acceptance among employers – particularly when it seems likely that the proposals will receive a cool reaction this week from the Confederation of British Industry (CBI), of which the EEF is the largest member.

The EEF, which represents about 5,000 companies, covering more than 1m employees directly, rejects the three main ambitions for PRP laid out in the Government's consultative Green Paper on the issue – that it could increase employee identification with their companies, increase pay flexibility and help improve pay determination.

In its submission to Mr Nigel Lawson, Chancellor of the Exchequer, the EEF "accepts the desirability of making progress on all three objectives; but concludes that the PRP proposal does not give sufficient promise of providing a means of making broad progress on any of those objectives."

Dr James McFarlane, EEF director, says in a letter to Mr Lawson: "Our impression is that many manufacturing enterprises would find it more difficult to take advantage of the PRP scheme than would some other types of enterprise which are not engaged in the competitive production of physical goods – let alone goods that take a long time, and require much investment, to make."

The main points of the EEF's objections to PRP include:

● Employee identification. The federation says that PRP's underlying assumption that the greater the amount of employees' pay at risk, the greater will be their positive identification with their company is "questionable."

● Employment and pay flexibility. The EEF says the operation of PRP would tend to act as an incentive to reduce employed numbers – so reducing the claims for it in stabilising employment. PRP would also not isolate employees from the pay trends in various intersecting labour markets.

● Pay determination. Warning of "formidable complexities" in negotiating PRP at the same time as normal pay rises, the EEF says that any PRP payment might not take place until up to 21 months after the start of negotiations on it.

● Tax relief. The EEF says that the tax relief offered by the Government is too small to interest many employees.

Instead of the Government's scheme, the EEF is proposing an extension of employee share ownership provisions, and relating pay to performance.

C. E. Heath faces takeover approach

BY CHARLES BATCHELOR

A TAKEOVER bid worth at least £150m for C. E. Heath, the international insurance broker and underwriter, is expected to be launched today by one of its leading insurance rivals.

The bid, which Heath is expected to resist, would cut across plans announced earlier this month for the company to merge with Fielding Insurance, a broker which is controlled by Hambros, the merchant banking group.

Heath's profits have been hit recently by a decline in its broking business and changes in insurance regulations in Australia where it carries out a lot of its business. It made a pre-tax profit of £30.37m in the year to March 1986 compared with £30.12m the year before but it expects a significant reduction in profits in the present year.

The identity of the bidder and the bid terms are expected to be announced today, but speculation in the insurance market has focused on Stewart Wrightson, Willis Faber, Hogg Robinson and PWS International, all major brokers, as possible bidders.

The bid has been prompted by the announcement that Heath was in talks with Fielding. This deal, it was felt, would not provide the answer to the management problems facing Heath.

Under the terms being negotiated with Fielding, Hambros would take a 20 per cent stake in the combined group. Heath would buy Fielding on a share-for-share basis but the merged operation would be managed by Fielding.

Majority of companies 'will stay with BT'

By Alan Cane

A LARGE majority of UK companies say they have no plans in the next two years to switch any part of their telecommunications traffic from British Telecom to Mercury Communications, the Cable and Wireless subsidiary which is the sole competitor to BT's main network.

This is the most significant conclusion to be drawn from a regular survey of companies in every industrial sector carried out in the past two weeks by the management consultancy Price Waterhouse.

The survey, now in its seventh year, canvasses opinions on data processing and datacommunications from a panel of some 500 companies every three months.

It shows that of the companies questioned, 88 per cent indicated that they had no intention of shifting any part of their communications traffic to Mercury in the next two years, while a mere 2 per cent said they intended to use Mercury for 50 per cent or more of their communications business.

The strongest demand for new telecommunications lines has been in the City of London in the run up to deregulation on October 27.

Jaguar peace move expected to secure return to work today

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

JAGUAR MANAGEMENT has made an important concession to the 800 workers on strike at its Coventry factory in a move to end the dispute which has halted all saloon car assembly, including the newly launched XJ6.

Union leaders were confident last night that what they described privately as a climbdown by the company should ensure a return to work today.

They believe the walk-out, which drew support from hundreds of other workers, will strengthen their hand in crucial pay negotiations which reopen tomorrow.

There is still a wide gap between the unions' demand for an immediate £20 a week rise – around 15 per cent – and the company offer of a two-year deal, yielding 5.25 per cent in the first year and 4.25 per cent in the second.

Senior shop stewards and management were clearly surprised at the depth of feeling over a dispute which flared on Thursday and centred upon the use of industrial engineers, traditionally known as "the time and motion men."

Jaguar took a tough line throughout Thursday and Friday insisting that the 800 workers must return before discussions about the industrial engineers could begin.

The position deteriorated quickly on Friday; a mass meeting of the strikers for the second time overturned the recommendation of their senior stewards and voted not to consider the issue until next Thursday. According to union sources, more than 2,000 other workers walked out in sympathy.

The company, in urgent talks called with the senior stewards over the weekend, has now offered to withdraw the industrial engineers for two days while discussions take place.

Jaguar said last night: "Clearly there are some deep-rooted problems which we need to explore."

The dispute could hardly have come at a more embarrassing time for Jaguar as it seeks to capitalise on the enthusiastic press reception given for its new car, launched less than two weeks ago after a £200m six-year development programme.

Sir John Egan, the chairman much praised for the quality and productivity turnround he has achieved at Jaguar, has made clear he is determined to realise the cost savings designed into the new car.

The shop floor workers are equally conscious that the negotiations with the industrial engineers over the coming weeks on the time and effort required for particular jobs will determine their working conditions for the next decade.

The car, which only went into production six weeks ago, is now running at a weekly output of 150 and must be pushed to 900 over the next 12 months.

Union leaders, nervous about the extent of shop floor militancy in a city where unemployment has climbed to a record high of nearly 18 per cent, have so far taken a cautious line in the pay talks.

They will go into tomorrow's negotiations much buoyed by the events of the past few days. One steward said last night: "We were all as surprised as the management at the support that was forthcoming for the assembly track workers. There is clearly a deep feeling of unrest within Jaguar."

Ford wins defence order for 3,000 diesel cars

FORD WILL supply the Ministry of Defence with 3,000 diesel engined cars over the next three years under the terms of a contract announced at the Birmingham Motor Show yesterday, Hazel Duffy writes.

As is customary with fleet car sales, the value of the contract has not been revealed. But at showroom prices, the diesel engined Escort estate cars would be worth more than £17m, making this possibly the biggest order for diesel powered cars placed in Britain. Most of the cars will be supplied from the Ford Halewood plant on Merseyside, in north west England.

Ford is already supplying British Telecom and the Post Office with vans and cars powered by the 1.6 litre front wheel drive diesel engine which will go into the Ministry of Defence staff cars. The engine accounts for nearly 30 per cent of all UK car and light van diesel sales sold so far this year. The main part of Dagenham's production of the engine, however, has been exported to Ford plants elsewhere in Europe.

□ US-owned health care company, Johnson and Johnson, has reached a radical deal with unions representing manual workers at its UK manufacturing and distribution plants which includes placing clerks in the same salary range as fork lift truck drivers and skilled technicians in the same band as personnel officers.

The deal has been accepted by the manual unions, but rejected by members of the white-collar union Apex. Discussions with the union are still continuing with the aim of reaching agreement by the end of the year.

The agreement on harmonisation is an important example of the moves within some companies to try to reach common terms and conditions between traditionally blue and white-collar employees, with the aim of reducing the potential for internal conflict and increasing efficiency.

□ THE Labour Party is this week likely to step up pressure on the government to allow more tima for debate on the Financial Services Bill when it completes its passage through tha House of Commons.

The Bill has already had a rough ride in the House of Lords, suffering several defeats and subject to hundreds of amendments. The government has been repeatedly accused on all sides of mismanagement in its handling of the legislation and last week it announced another batch of amendments at the last-chance, third reading stage.

There are two more days for debate in the Lords and the Bill is then expected to return to the Commons next week, where the government is thought likely to allocate one day for its final consideration.

□ HIGH-TECHNOLOGY companies operating in the UK tend not to be unionised, according to a forthcoming academic survey of the industrial relations policies of employers in the high-tech area.

The results of the study will reinforce the daunting problems faced by those unions which are trying to gain a toehold in the high-tech sector, regarded as offering good prospects for employment growth and from that an increase in union membership.

Mr Phil Beaumont, senior lecturer in the department of social and economic research at Glasgow University, says that available evidence tends to support the idea that such companies are overwhelmingly non-union, and that there is some support for the notion of a new, much more paternalistic, management approach in this area.

□ ALMOST a third of the 29,000 workers in the UK offshore oil and gas industry could be made redundant by the end of 1987 unless the government takes action to protect jobs, according to the National Union of Seamen.

The union is seeking urgent meetings with Energy Secretary Mr Peter Walker, and Transport Secretary Mr John Moore as part of a campaign it launches today to press the government to stimulate employment in the offshore industry.

Around 15 per cent of the NUS's 4,600 members in the offshore industry have been made redundant since April, the union says.

BASE LENDING RATES

	%		%		%
ABN Bank	11	Citibank NA	11	● Morgan Grenfell	11
Adam & Company	11	Citibank Savings	¶10.95	Mount Credit Corp. Ltd	11
Allied Arab Bk Ltd	11	City Merchants Bank	11	Nat Bk. of Kuwait	11
Allied Dunbar & Co	11	Clydesdale Bank	11	National Girobank	11
Allied Irish Bank	11	Comm. Bk. N. East	11	Nat Westminster	10
American Exp. Bk	11	Consolidated Cred	11	Northern Bank Ltd	11
Amro Bank	11	Co-operative Bank	*10	Norwich Gen. Trust	11
Henry Ansbacher	11	Cyprus Popular Bk	11	PK Finans. Intl (UK)	11½
ANZ Banking Group	11	Duncan Lawrie	11	Provincial Trust Ltd	12
Associates Cap Corp	10	E. T. Trust	12	R. Raphael & Sons	11
Banco de Bilbao	11	Equatorial Tst C'p plc	11	Roxburghe G'rantee	11
Bank Hapoalim	11	Exeter Trust Ltd	11½	Royal Bk of Scotland	11
Bank Leumi (UK)	11	Financial & Gen. Sec	11	Royal Tst Co Canada	11
Bank Credit & Comm	11	First Nat. Fin. Corp	11	Standard Chartered	11
Bank of Cyprus	11	First Nat. Sec. Ltd	11	Trustee Savings Bank	11
Bank of Ireland	11	● Robert Fleming & Co	11	UDT Mortgage Exp.	¶10.9
Bank of India	11	Robert Fraser & Ptrs	12	United Bk of Kuwait	11
Bank of Scotland	11	Grindlays Bank	‡11	United Mizrahi Bank	11
Banque Belge Ltd	11	● Guinness Mahon	11	Westpac B'nking Corp	11
Barclays Bank	11	HFC Trust & Savings	11	Whiteaway Laidlaw	11½
Benchmark Tst Ltd	11	● Hambros Bank	11	Yorkshire Bank	11
Beneficial Trust Ltd	11	Heritable & Gen. Tst	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
● Brown Shipley	11	Hongkong & Shangh'	11		
CL Bank Nederland	11	Knowsley & Co. Ltd	11½		
Canada Permanent	11	Lloyds Bank	11		
Cayzer Ltd	11	Mase Westpac Ltd	11		
Cedar Holdings	12	Meghraj & Sons Ltd	11		
● Charterhouse Bank	11	Midland Bank	11		

● Members of the Accepting Houses Committee. * 7-day deposits 5.69%. 1-month 6.03%. Top Tier—£2,500+ at 3 months' notice 9.72%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 6.69%. Mortgage 11%.

BBC faces row over political independence

BY DAVID CHURCHILL

THE BBC is facing a row over its political independence following a decision by the BBC's Governors to try to reach an out of court settlement with two Conservative MPs who were taking libel actions against the Corporation.

Settlement of the libel actions, which has still to be formally announced in court, was understood to have been reached late last week following a meeting of the BBC's Governors last Thursday.

The libel actions were brought by the two MPs – Mr Neil Hamilton and Mr Gerald Howarth – following a Panorama programme broadcast in February 1984.

This programme, entitled Maggie's Militant Tendency, purported to show that both MPs were linked to extremist right-wingers trying to infiltrate the Conservative Party.

The action brought by Mr Hamilton was already under way but was halted on Friday so that out of court discussions could take place.

The proposed settlement is understood to involve paying damages of £20,000 each to the two MPs as well as their full legal costs – estimated at £200,000 at least – and to broadcast an apology. The BBC said yesterday that it was unable to make any comment.

However, the BBC's apparent climbdown over the libel actions is likely to lead to a public row over its journalistic independence. BBC journalists and senior management are understood to be concerned at the Governors' failure to support the Panorama programme, especially since an internal investigation had suggested that the BBC had a strong defence to mount against the libel actions.

Some BBC journalists are believed to see the case as similar to the controversy surrounding the Real Lives documentary programme last year when changes were made in a programme about Northern Ireland.

Mr John Foster, broadcasting organiser for the National Union of Journalists, said that BBC journalists were appalled at the apparently chaotic manner in which a decision to settle the libel action had been reached. "In the last few years the NUJ has been forced on several occasions to defend the reputation and standards of the BBC in the face of management weakness or political interference," he added.

The BBC was also criticised yesterday by another Conservative MP for wasting public money over defending the libel actions.

Peter Riddell outlines Conservative legislative plans

Government gets its second wind

A MUCH clearer idea of the Government's legislative plans up to and beyond the next general election has emerged since the Conservative Party conference and on the eve of the reopening of Parliament after the summer recess.

The striking feature of the conference was that the Government appeared to get its second wind. Ministers were eager to demonstrate that they had not run out of ideas, despite over seven years in office. As Mr John Moore, the Transport Secretary and rising star of the Conservatives' free-market wing, said on Friday: "There is a new confidence in the party. In Bournemouth we showed that we have lost none of our radicalism.

At the conference itself only snippets were given about long-term thinking – for example on the deregulation of rented housing – partly because firms decisions have not yet been taken in many areas. Indeed, the dozen party policy groups set up to prepare ideas for the manifesto have only just started work.

Nevertheless, in a number of key areas the outlines of manifesto commitments and post-election policy are apparent:

- Privatisation of most of the rest of state industry. Water authorities are definitely on the list, which may also include electricity supply and Post Office as well as the injection of private capital into parts of British Rail, British Coal and British Steel.
- Approval of expanded nuclear power programme depending on timing of the decision of the inquiry into Britain's proposed first PWR reactor at Sizewell in Suffolk.
- Reform of personal taxation system with introduction of transferable allowances between husbands and wives.
- Further instalment of trade union law hinted at, but nothing firm. Action could include tightening of requirements on ballots on union elections and, less likely, measures affecting strikes in essential services and legally enforceable contracts.
- Rates reform in England and Wales to be top priority post-election and changes to be introduced by 1990.
- Ending of rent controls on new tenancies agreed with new category of registered landlords, but not affecting existing tenancies. Also measures to fulfill pledge of 1m more home owners by 1991.
- Major educational reform. Details undecided but likely to include expansion of parental choice and financing schools on an open entry basis of payments per pupil. Also a new package of loans, grants and sponsorship for financing higher education.
- Further measures to encourage share ownership to fulfil pledge of doubling number of individual direct shareholders in life of next parliament.

However the postponement until after the next election of some controversial measures such as water privatisation and English and Welsh rates reform will mean a lighter Queen's Speech on November 12 than in recent years. The Cabinet's legislation committee has prepared the 1986-87 programme on the assumption that all the proposed bills will become law by the end of July next year, without the usual spillover session at this time of year.

The aim is to clear the decks by the start of the 1987 summer recess, to leave open the option of an autumn general election.

Airlines support launch of travel card

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

AN AIR travel credit card, Airplus, has been launched by a company called the Airplus Company, under the guidance of 13 major European airlines which are members of the Association of European Airlines (AEA).

Mr David A. Huemer, a former senior executive with a leading credit card company, has been appointed managing director. The card is designed to provide corporate business expense services related to air travel, car hire, restaurants and hotels, and will be available next year.

Airlines prepared to accept the card include Aer Lingus, Air France, Alitalia, Austrian Airlines, British Airways, Finnair, Iberia, Icelandair, KLM, Lufthansa, Sabena, Swissair and TAP.

Speaking on behalf of the airlines, Mr Karl-Heinz Neumeister, secretary-general of the AEA, said that the Airplus card "has been designed to match current and future electronic transaction systems such as airline automated ticket machines, and has been made available by the full backing of the acknowledged business travel experts – the airlines.

"Europe will now have its own multi-function business card from the industry that actually provides the service – rather than just the bills. This may also provide a strong link between airlines and travel agents.

UK NEWS

British paper industry 'on expansion path'

BY TONY JACKSON

THE UK paper industry is back on the expansion trail, according to a study from stockbrokers Alexander, Laing & Cruickshank. Capacity, at 4.47m tonnes, has risen by some 16 per cent from its low point eight years ago of 3.85m tonnes.

The firm's UK Paper & Packaging Directory, a standard reference source for the industry, takes its most positive view of the industry for a number of years. The study says that 30 per cent of present capacity is represented by new or rising forces in the industry.

These include Davidsons, which has become the UK's third largest producer with capacity of 388,000 tonnes, and D.S. Smith, which is now fourth largest with 282,800 tonnes.

A further 21 per cent of capacity consists of 18 papermakers who have increased their combined output since 1978 by more than 20 per cent, from 777,000 tonnes to 944,800 tonnes. These producers have moved against the general trend, which has left current capacity still 10 per cent below the 1978 peak.

Then come what the study terms "traditional forces", with 36 per cent of industry capacity, which have seen output fall by nearly half since 1978, from 2.88m tonnes to 1.62m.

"The decline now seems over", says the study.

The study comments that a number of the new forces have emerged on the stock exchange, concentrating on paper and related sectors. These include Davidsons (part of BPB Industries), Ferguson Industrial Holdings, Low & Bonar, Norton Opax and D.S. Smith.

New gas fields can vary output

By Lucy Kellaway

TWO new gas fields in the North Sea, which will be able to meet about 7 per cent of average winter gas needs in the UK, are ready to start production.

The fields, Sean North and South, have cost £360m to develop, and are unusual because they are able to vary output to meet demand. The only other gas field of this type is British Gas's Morecambe Bay field.

The fields, which are located about 70 miles off the Norfolk coast, have been developed by Shell and are the largest investment that the company has made in the last 15 years in the southern gas basin.

The Sean fields will only produce gas during the peak winter months and will be able to meet demands from British Gas for up to 600m cubic feet a day.

In return for the uncertain production flow, the partners in the field – Shell, Esso, Britoil and Union Texas – will receive a standing charge based on available capacity from British Gas.

Chemical research targets pinpointed

BY DAVID FISHLOCK, SCIENCE EDITOR

ELECTRONICS, advanced materials, health care and food are the four key targets on which the British chemical industry should concentrate in the 1990s.

They are the markets picked out in a study by the Chemical Industries Association, the trade body for the £2.5bn industry. Its first assessment of priorities for research and development, urges the industry to focus on "emerging areas which are likely to be additional major contributors to our industry in the 1990s".

Although the chemical industry is Britain's most research-dominated industry, spending £840m last year, there is an "abysmal lack of knowledge" about the resources available to the smaller companies in support of new research targets.

First of the main new areas of opportunity is electronics and opto-electronics, one of the fastest-moving areas of research "with physics and chemistry working hand in hand to break new ground in terms of purity and physical properties as well as chemical function."

US tourism decline 'disastrous for hotels'

BY DAVID CHURCHILL, LEISURE INDUSTRIES CORRESPONDENT

THE SHARP decline in numbers of US tourists to Britain this year is likely to lead to a "dramatically disastrous year for the hotel trade," according to the edition of the Good Hotel Guide published today by the Consumers' Association.

The guide says the stay-away Americans – some 40 per cent fewer have come to the UK so far this year – is likely to put some small luxury hotels in financial difficulties. "Big international chains can more easily weather one catastrophic year than an individual owner," points out Mr Hilary Rubinstein, the guide's editor.

Yet, even if fears of terrorism and the Chernobyl nuclear disaster had not discouraged American tourists, then Mr Rubinstein says the attitude of hotel industry staff towards Americans may have led to fewer coming anyway.

"There is a growing fashion to denigrate Americans. Behaviour as distasteful as anti-Semitism of mindless prejudice against women or blacks or gays," says Mr Rubinstein.

In one sophisticated hotel in the Scottish Highlands, he reports, the owner openly broadcast his anti-American views in the bar and continued unabashed even when Mr Rubinstein told him that his travelling companions were Americans.

Even at Cliveden, Britain's most expensive country house hotel, Mr Rubinstein says that a staff member "volunteered his pleasure and relief that there would be a preponderance of British guests: Americans, he said, were just a lot of trouble."

Mr Rubinstein adds that "if an American visitor had protested vociferously at the kind of inept service that we experienced that weekend, then bully for him!"

This tenth edition of the guide, however, praises the "great improvement" in hotel food over the decade and adds that hotel standards have risen steadily.

But the guide is continuing its campaign against the "scandalous anachronism" of service charges in hotels. "We have no wish to reflect the generous impulses of those who want to reward special kindnesses beyond the call of duty, but the present practice is just so much licensed beggary – licensed by custom if not statute," the guide says.

Hotel customers are urged to embark on a campaign of "civil resistance" to speed the end of service charges. "If your bill says 'service not included,' write on it 'Why not?'," the guide suggests. "If your bill says a service charge has been added and you've received shoddy service, don't pay up without a fuss," it adds.

The top award for "comprehensive excellence as a luxury country house hotel" went to the Ston Easton Park hotel at Ston Easton in Somerset. The best town hotel was The Castle, in Taunton, Somerset, while the best seaside resort hotel was the St Tudno Hotel, Llandudno, in North Wales.

● The latest round of price promotions offered by the leading package tour operators continued yesterday with Horizon Holidays cutting the price of 50,000 holidays to Majorca by 10 per cent. This follows Thomson Holiday's move on Friday of cutting up to £40 for some of its Majorca holiday next summer booked through its Skytours subsidiary.

Intasun, another of the leading operators, is today launching the first of nine summer holiday brochures and is expected to include a number of promotional price cuts.

One smaller tour operator, John Hill Travel of Richmond, Surrey, was quick off the mark yesterday to offer holidays to the 1992 Olympics in Barcelona. Customers will pay a £50 deposit which will then be invested in British Airways shares when they come onto the market next year. These shares will then be sold in 1991 to pay for the cost of the Olympic holiday.

**1986 Good Hotel Guide, Consumers' Association and Hodder & Stoughton, £9.95.*

UK NEWS

BRITISH SIGHTS SET ON BECOMING BIGGEST FINANCIAL MARKET

City sets out securities challenge

BY BARRY RILEY

LONDON'S CHALLENGE to the bourses of Continental Europe was clearly set out at last week's European analysts' congress in Florence, Italy, with a call to continental securities firms to join the new international stock exchange in London and help to build it into the world's biggest marketplace.

Mr Stephen Raven, a London stock exchange council member who has been closely involved with the exchange's proposed merger with Isro, the international dealers' organisation, said that the stock exchange and Isro had come to the inescapable conclusion that together they could make the UK into the major world force in securities trading.

"What is happening in London will affect you all," he told members of more than 12 national societies within the European Federation of Financial Analysts Societies (Effas).

"What we are doing is building an international market today which could well become the unified European financial market of tomorrow. I hope that all of you will consider becoming part of this market."

Mr Archibald Cox, London head of Morgan Stanley, the New York-based investment bank, said that a small group of firms would emerge as global supermarkets, where global investors could obtain a full service product.

"These firms will tend to draw the markets to where their principal activities are located. Obviously, this will have an impact on other financial centres."

Mr Cox said that local securities firms should react by improving their research product and the quality of the domestic market. He added: "Such measures will not, I suspect, be enough to ensure that all business stays in its home market, or that international firms stay out of various domestic markets."

The shadow of London's Big Bang restructuring, only a few days away, on October 27, hung over the congress, which had the theme "Towards an Integrated European Financial market."

Mr Xavier Dupont, chairman of the Committee of the European Stock Exchanges emphasised the problems in changing the old fixing-based systems used by many Continental bourses to continuous trading methods, while even different markets within the same country were finding it hard to achieve consensus.

Meanwhile the Idis project, the Interbourse Data Interchange System sponsored by the European Commission, was only moving ahead slowly. Mr Dupont said that the implementation of a second stage of this project would be discussed at a stock exchange's executive committee meeting.

The urgency of the situation was emphasised by Mr Patrick Lannoy, a Brussels stockbroker. Stock exchanges had to adjust their methods if they were not to be left trailing and uncompetitive.

He noted that the London stock exchange had "sacrificed itself as a stock exchange and has become a financial trading centre."

Mr Jochen Neynaber, a German speaker, gave a warning that if London were to become the time zone centre for Europe "Frankfurt, Milan and Zurich will be the provinces, particularly if we continue to be unable to synchronise our dealing and settlement methods."

Mr Neynaber, from Schröder, Münchmeyer, Hengst & Co. in Frankfurt, said that on the main Continental bourses the 10 most active stocks in each case represented between 80 and 50 per cent of local trading volume.

"Our business will be much more trading driven and in addition to our product we will have to commit more risk capital in order to succeed in a more competitive world," Mr Neynaber said.

London prepares for the Big Bang

Market makers struggle to handle technology

By Alan Cane

IT WAS every bit as bad as the computer experts had said is was going to be: the final confirmation of those predictions over the past year that Seaq, the Stock Exchange Automated Quotations system, would be ready for the market makers but that the market makers' systems might not be ready for Seaq.

Some 32 serious computer problems were reported to the exchange during Saturday's rehearsal of which 30 were fixed by the end of the day, but many market makers are convinced their systems are not fast enough to cope with trading after October 27 and that the remaining week will not be sufficient to cure the faults.

The exchange, however, was claiming a success for its central systems. The Seaq computers in the Stock Exchange tower and the exchange's technical headquarters in nearby Christopher Street, woke at their appointed time and were ready for the first market-makers to "log-on" (connect) at 8 am.

By 8.45 am the system was handling 17 transactions a second, each transaction representing a quote put in, well within the system's tested capacity of 40 transactions a second.

Mr Michael Newman, head of information systems at the Stock Exchange, said Seaq had spare capacity all day; it had coped easily with the load. Regular trials showed that any quote put in using the exchange's own market maker terminals would change on the Seaq screen within two seconds.

It was not, however, a faultless performance. The alarm bells rang regularly in the exchange's impressive technical control centre as teams of systems engineers cured minor problem after minor problem.

Member firms reported a different story. Those who found difficulty logging on or inputing quotes or trades included Kitcat & Aitken, Akroyd and Smithers, Scrimgeour Vickers, Wood Mackenzie, W. Greenwell and Hoare Govett.

Kleinwort Grieveson, which had identified a number of problems during the first equities rehearsal a week ago, was much happier. It had a good afternoon's trading after a difficult morning.

Among the firms with the biggest problems there is a great deal of bitterness over the timescale allowed and co-operation extended by the exchange. At a press conference after Saturday's rehearsal, Mr Patrick Mitford-Slade, head of the exchange's special projects committee, said dismissively that if there were faults in the members' systems, then that was their responsibility.

But a systems specialist working for a major gilts dealer summed up the views of many in the the past few weeks when he complained of poor co-operation, saying the exchange had used up its supply of goodwill.

In the context of major technological developments, the problems reported on Saturday were nothing out of the ordinary. What is worrying members is the lack of time to put them right and the fact that real money will be involved from next Monday.

Phillips and Drew Moulsdale (PDM), the gilts market maker, which has been working on its Gemini market information and Future Systems position keeping computers since 1984, came through Saturday comparatively unscathed, despite a 90-minute break in service from the Bank of England Central Gilts Office caused partly by problems in starting up the system in the morning and partly by a small fire ("It was a routine day's trading," Mr Eddie George of the Bank of England said later).

Market makers find the going tough but learn to solve snags

BY CLIVE WOLMAN

THE CONCLUSION of most of the post-mortems held by stock exchange firms after the end of Saturday's dress rehearsal for Big Bang was that handling the new market practices proved tough at the start but their market-makers had learnt quickly.

At the very least, the rehearsal demonstrated that the stock exchange's own systems for dealing in equities were working adequately and that, whatever the defects in the inter-linking systems of member firms, none was so serious as to create the risk of catastrophic losses after Big Bang.

Nevertheless, several firms such as Wood Street Securities which faced a series of computer problems in the morning, are planning an intensive programme of internal rehearsals over the next week.

Most of the firms who were apprehensive on Friday and distraught when their systems failed to link up satisfactorily on the Saturday morning, relaxed as the day wore on. According to Mr Tim Coghlan, head of the UK equities division of Barclays deZoete Wedd: "There was a fair feeling of depression at the start of the day when everything seemed to be clogged up. But it picked up."

BZW and Warburg, which incorporates stockbrokers Rowe and Pitman, Mullens and jobbers Akroyd and Smithers, are the two biggest market-making firms in the pre-Big Bang Stock Exchange. On Saturday, most of their dealers for the first time moved away from the Stock Exchange floor and into the offices alongside their new broking colleagues.

Mr Peter Wilmot-Sitwell, chairman of Warburg Securities, said that one of the probable conclusions from the day's trading was that they had left too many dealers on the stock exchange floor and not enough on the telephone. Most brokers believed that the day's events supported the view that dealings on the stock exchange floor will soon be limited to small bargains and trades in the least-liquid securities.

Ironically, however, some agency brokers were forced to go and trade on the stock exchange floor because several of the market-makers were refusing to answer their telephones. The reason in many cases was that they were unable to update their prices through their computer terminals on the Stock Exchange Automated Quotations System (SEAQ) and therefore would have been obliged to deal at their former prices.

Some firms blamed SEAQ for the delays, but stock exchange officials insisted that their tests showed that it never took more than two seconds for SEAQ prices to be changed and that the fault must lie with the firms' link-ins to SEAQ.

Mr George Hayter, director of the stock exchange's information services, said after the rehearsal that the exchange would probably give firms a few days' grace after Big Bang before enforcing the requirement that firms deal in the prices and volumes appearing on SEAQ for the 82 most actively-traded "alpha" securities. But thereafter the rules would have to be enforced.

One figure who seems likely to be of prime importance in the new market is the sales trader.

Gilts rehearsal free of hitches

BY JANET BUSH

SATURDAY'S SECOND and final dress rehearsal for traders of gilt-edged government securities ahead of Big Bang was a much less hectic affair than the first practice session held on September 27.

The equity market had its first chance to see the Stock Exchange's vast array of interconnecting computers in action and the gilt-edged sector was able to take something of a back seat. While the stock market battled its way through two high-volume sessions in the morning and afternoon, gilt dealers finished a short working day at 11am.

Problems emerged later at the Central Gilts Office, which houses the Bank of England's computer for settlement of bargains. A fire in a lift shaft, nowhere near the computer itself, caused by workmen, meant the building had to be evacuated for about half an hour at lunchtime. This did not disrupt the Bank's timetable for settlements. But later in the afternoon, an electrical fault caused problems for some 15 minutes.

Nevertheless, the Bank of England expressed quiet satisfaction with the trading session, saying trading volume had been fairly significant but that all market participants had stuck within their preset dealing limits.

In the high-tech dealing room of broker James Capel & Co, one of 27 primary dealers who will compete fiercely in the newly-structured market, Mr Bob Smith, executive director and chief risk manager, said: "Everyone is geared up for the real thing now."

Legal Notices

IN THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF COLORADO

In re: STORAGE TECHNOLOGY CORPORATION; and affiliated companies, Debtors. Chapter 11 Case No. 84-B-5377-J (Joint Administration) Case Nos. 84-B-5377-J through 84-B-5386-J, inclusive, and 84-B-5832-J

In re: STORAGE TECHNOLOGY LEASING CORPORATION, et al., Debtors. Chapter 11 Case No. 84-B-8422-J (Joint Administration) Case Nos. 84-B-8422-J through 84-B-8434-J

NOTICE OF (1) HEARING TO CONSIDER CONFIRMATION OF PLAN; (2) TIME FIXED FOR FILING ACCEPTANCES OR REJECTIONS OF PLAN; (3) TIME FIXED FOR FILING OBJECTIONS TO CONFIRMATION OF PLAN; AND (4) TIME FIXED FOR FILING OBJECTIONS TO THE ASSUMPTION OF EXECUTORY CONTRACTS PURSUANT TO THE PLAN

To All Creditors, Equity Security Holders and Other Parties in Interest:

PLEASE TAKE NOTICE that following a hearing thereon held on October 6, 1986, the United States Bankruptcy Court for the District of Colorado (the "Court") approved an Amended Disclosure Statement (the "Disclosure Statement") with respect to the "Debtors' Joint Plan of Reorganization" dated October 3, 1986 (the "Plan") as containing adequate information to enable creditors, equity security holders, and other parties in interest to make an informed judgement about the Plan.

PLEASE TAKE FURTHER NOTICE that a hearing will be held on December 9, 1986, commencing at 9:00 A.M. in Courtroom 207, United States Courthouse, 1929 Stout Street, Denver, Colorado 80202 to consider confirmation of the Plan. The hearing may be continued from time to time without further notice.

PLEASE TAKE FURTHER NOTICE that only those holders of record of any of the Debtors' publically traded securities as of the close of business on October 3, 1986, shall be entitled to vote to accept or reject the Plan.

PLEASE TAKE FURTHER NOTICE that the Court has directed that ballots accepting or rejecting the Plan shall only be counted if returned to the Debtors so that they are received no later than 5:00 P.M. Mountain Standard Time on December 4, 1986. All Creditors and Security holders holding securities in their own name must return their ballots to:

Storage Technology Corporation
Mail Drop VO
2270 South 88th Street
Louisville, Colorado 80028.

Securities held for beneficial owners in a nominee's name by brokerage firms and other institutions must be voted by those institutions. Beneficial owners must deliver voting instructions to the institution holding the securities, and such institutions must, in turn, deliver their ballots to:

The Carter Organization
186 John Street
New York, New York 10038

PLEASE TAKE FURTHER NOTICE that any objections to confirmation of the Plan must be in writing, clearly specify the grounds therefor including the citation of supporting legal authority, and be filed with the Court and served on the counsel named below so that they are received by the Court and all such counsel no later than the close of business on December 1, 1986:

Bruce H. Spector, Esq.
Bruce Bennett, Esq.
STUTMAN, TREISTER & GLATT
Professional Corporation
3699 Wilshire Boulevard
Suite 900
Los Angeles, CA 90010

W. Dean Salter, Esq.
Stephen Snyder, Esq.
HOLME ROBERTS & OWEN
1700 Broadway, Suite 1800
Denver, Colorado 80290

Carl A. Eklund, Esq.
ROATH & BREGA, P.C.
1700 Lincoln Street
One United Bank Center
Suite 2222
Denver, Colorado 80202

OFFICE OF THE UNITED STATES TRUSTEE
1845 Sherman Street
202 Columbine Building
Denver, Colorado 80203

John Richards Lee, Esq.
SECURITIES & EXCHANGE COMMISSION
219 S. Dearborn, Room 1204
Chicago, Illinois 60604

PLEASE TAKE FURTHER NOTICE that the Plan provides that all executory contracts of the Debtors shall be assumed pursuant to the provisions of Section 365 and Section 1123 of the Bankruptcy Code other than (a) executory contracts which are the subject of separate motions filed pursuant to Section 365 of the Bankruptcy Code by any of the Debtors prior to the commencement of the hearing on confirmation of the Plan, and (b) such contracts as are listed in the Schedule of Rejected Executory Contracts which will be on file with the Bankruptcy Court [illegible] may be amended by the Debtors on or before the date on which the Bankruptcy Court enters an order confirming the Plan. Any party to an executory contract or unexpired lease assumed pursuant to the Plan must, within the deadline and in the same manner established for objections to confirmation, file any objection to the assumption pursuant to Section 365 of the Bankruptcy Code of the executory contract or lease and any claim for amounts required to be cured under Section 365(b) (1) of the Bankruptcy Code. Failure to assert such arrearages or to file any such objection with respect to the proposed assumption of an executory contract or unexpired lease shall constitute a consent to the assumption of such executory contract or unexpired lease and an acknowledgement that no defaults exist under said contract or lease which require cure.

Dated: Denver, Colorado
October 15, 1986

Bruce H. Spector, Esq. and Bruce Bennett, Esq., members of Stutman, Treister & Glatt
Professional Corporation
3699 Wilshire Boulevard
Suite 900
Los Angeles, California 90010
Telephone: (213) 251-5100

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Stephen Snyder, Esq.
Holme Roberts & Owen
1700 Broadway, Suite 1800
Denver, Colorado 80290
Telephone: (303) 861-7000
Attorneys for Debtors

Company Notices

Notice of Distribution

FIDELITY INTERNATIONAL FUND N.V.

Registered Office: Schottegatweg Oost, Salinja Curaçao, Netherlands Antilles

To the Holders of Registered Certificates and Bearer Certificates U.S. $1.00 par value

Notice is hereby given that, pursuant to the Plan of Liquidation and Reorganization adopted as of March 20, 1986, as amended, of Fidelity International Fund N.V. (the "Fund"), the Liquidators of the Fund intend to deliver on November 3, 1986 to a consignment facility of Bank van de Nederlandse Antillen (Central Bank), Curaçao, Netherlands Antilles, liquidation proceeds for the benefit of Holders of Registered Share Certificates and Bearer Share Certificates of the Fund who have not surrendered their Share Certificates to The Bank of Bermuda Limited by November 3, 1986. The liquidation proceeds will consist of ten shares of Fidelity International Fund, a Luxembourg société d'investissement à capital variable formed as part of the reorganization, (the "SICAV") for each one share of the Fund held by a Holder.

To receive their SICAV shares, Holders should deliver their Fund Share Certificate or Certificates (with dividend coupon numbers 10-20 inclusive attached, in the case of Bearer Certificates) to the following banks:

PRIOR TO NOVEMBER 3, 1986
The Bank of Bermuda Limited
Transfer Agent for Fidelity International Fund N.V.
6 Front Street, Hamilton 5-31, Bermuda
Attention: Stock Transfer Division

FROM AND AFTER NOVEMBER 3, 1986
Bank van de Nederlandse Antillen (Central Bank)
Consignment Facility for Fidelity International Fund N.V.
Breedestraat No. 1 (P), Curaçao, Netherlands Antilles

It is suggested that Holders who mail their Certificates do so by registered mail, insured, since the risk of loss of Share Certificates will be borne by the Holder.

For further information, please contact any of the individuals listed below.

By Order of Management
Charles T.M. Collis
Secretary

Mr. Michael R. Sommerville
Fidelity Distributors International, Ltd
P.O. Box 670, Hamilton 5, Bermuda
Telephone Bermuda: (809) 295-0665 Telex: 3318 BA Cable: FIDENTCO

Mr. Philip B. van Nesse
Fidelity International (C.I.) Limited
9 Bond Street, Jersey, Channel Islands
Telephone Jersey: (0534) 71696 Telex: 4192260 G

Mr. Paul Forsyth
Fidelity International Investment Services, Limited
25 Lovat Lane, London EC3R 8LL, England
Telephone London: (441) 283-9911 Telex: 884387

NATIONAL BANK OF CANADA $US 100.000.000 FLOATING RATE DEPOSIT NOTES DUE APRIL 1995

For the three months, October 7, 1986 to January 6, 1987, the rate of interest has been fixed at 6 7/16 % P.A.

The interest due on January 7, 1987 against coupon nr. 7 will be $US 164,51 and has been computed on the actual number of days elapsed (92) divided by 360.

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
LUXEMBOURG

NOTICE OF REDEMPTION
A/S JYSKE BANK
US$40,000,000
Partly Subordinated Floating Rate Notes Due 1994

According to Clause 4(c) of the terms and conditions of the Notes, notice is hereby given that 2,600 Notes of the above-mentioned issue of US$10,000 each, numbered from 0001 to 2,000 and from 2,701 to 3,200 have been repurchased and will be redeemed on 31 October, 1986. Therefore, the Notes outstanding after the interest payment date will amount to US$15,000,000.

BANQUE GENERALE DU LUXEMBOURG SA
Principal Paying Agent

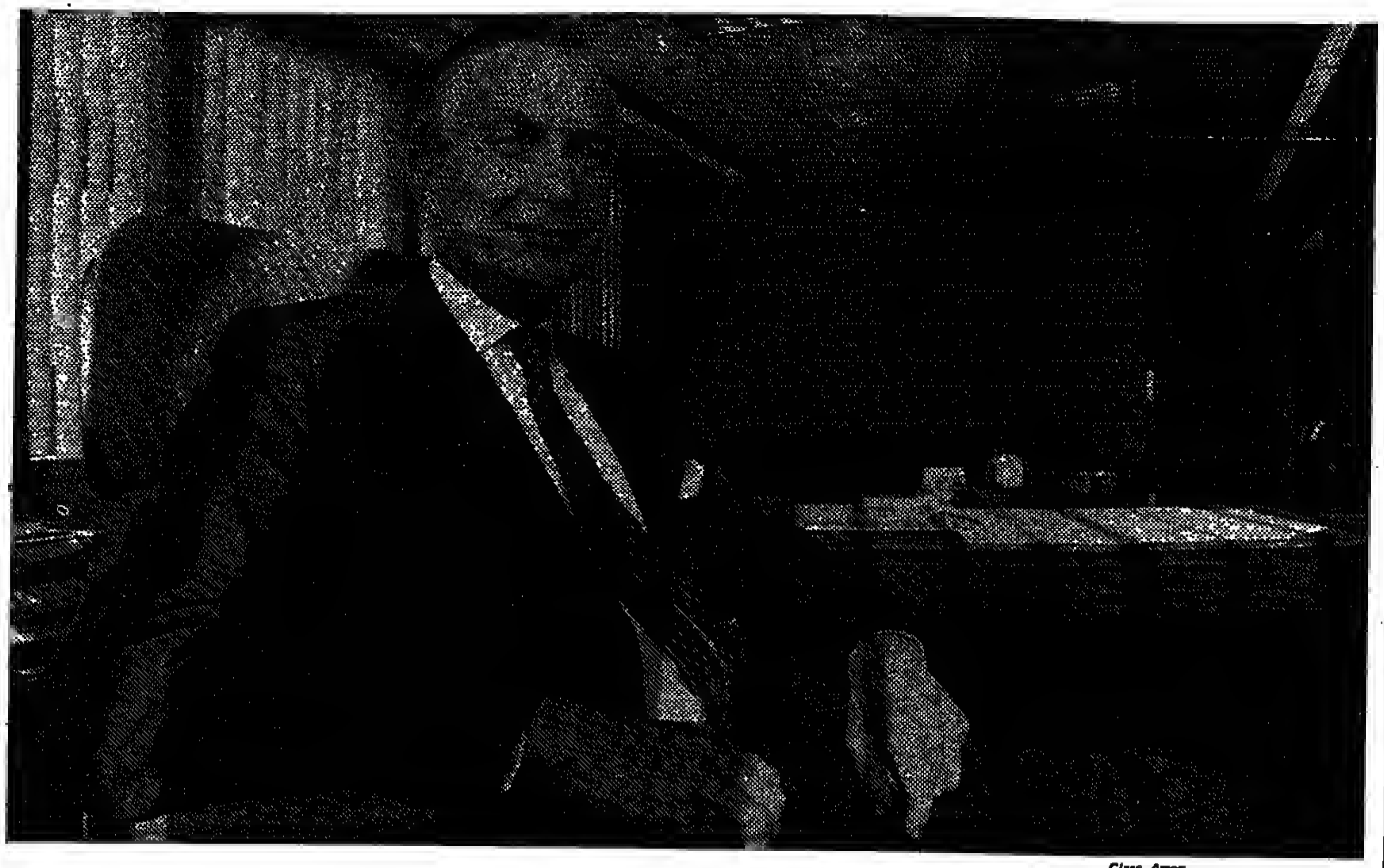
METROPOLITAN ESTATE & PROPERTY INTERNATIONAL N.V.

20,000,000 EUROPEAN COMPOSITE UNITS ("EURCO") 8¼% LOAN 1988

NOTICE IS HEREBY GIVEN that Metropolitan Estate and Property International N.V. has selected U.S. dollars as the currency of payment in respect of all Coupons No. 13 dated 15th November 1986 provided no valid contrary selection is made by the holder thereof on or before 31st October 1986 pursuant to the Terms and Conditions of the Bonds.

Principal Paying Agent:
N M Rothschild & Sons Limited
New Court
St Swithin's Lane
London EC4P 4DU

20th October 1986



Clare Arron

Just a little nervous

INTERVIEW

Sir Martin Jacomb, leading banker and City figure, talks to John Plender about life beyond the Big Bang

"I HOPE that wasn't all rubbish," said Sir Martin Jacomb as he fled from this interviewer through the backdoor of Barclays' imposing offices in Lombard Street on his way to a meeting at the Bank of England. It was a characteristically self-effacing throwaway line from a man who has been intimately involved in reshaping Britain's financial structure before the Big Bang and in assembling one of the country's biggest financial conglomerates.

Sir Martin, whose portfolio of top City posts includes a directorship of the Bank of England along with deputy chairmanships of Barclays and the Securities and Investments Board (the SIB), could fairly claim to be one of the City's most influential figures. That is, however, almost certainly the last thing he would ever do, despite having played a key role on the City Capital Markets Committee in influencing the changes on the Stock Exchange and a similarly heavyweight role in inventing tha SIB, which is to be the top watchdog in the new system of regulation outlined in the Financial Services Bill.

For a former barrister and one-time tax correspondent of the Financial Times, he is quite remarkably given to understatement. Sir Martin moved from merchant bankers Kleinwort Benson to oversee the merger of Barclays Merchant Bank, brokers de Zoete and Bevan and stockjobbers Wedd Durlacher Mordaunt in mid-1985. Unless his experience has been unique in the great tidal wave of mergers that has engulfed the City, he must have had some dark moments trying to reconcile the highly structured managerial habits of the clearing bank with the more inspirational (and more expensively paid) style that goes with investment banking; so, too, with the contrasting cultures of merchant bankers, brokers and jobbers in the combined Barclays de Zoete Wedd. Yet the problems are firmly played down.

"They are no more difficult in Barclays than any major commercial bank," he argues; and they should be seen within the context of the changes now taking place in the world banking market—most notably the trend for big companies to by-pass the banks and go direct to the securities markets for finance and the related squeeze on lending margins to the banks' larger clients.

"Within BZW," he adds, "we have overcome the cultural differences that you might have expected from the three different constituents; we are operating with a single BZW ethos. I'm very pleased with the speed with which all our people have adapted to the new world." He is sanguine, too, about the progress that has been made in fitting BZW into the Barclays group.

Personal culture shock on moving into a giant bureaucracy? Hard grind in implementing the merger? "Nothing untoward" is Sir Martin's message, along with glowing tributes to the clearing bankers. "It's bound to be hard for anyone to adjust to such a big organisation as Barclays, one which obviously requires a much more structured management style. I won't pretend it's been easy—I never expected it to be. I don't expect next year to be easy either. But it will be more enjoyable in the sense that there will be more concentration on doing the business than in organising ourselves to be able to do the business.

That is not to say that Sir Martin sees no difficulties in the imminent Big Bang, which involves the abolition of fixed minimum commissions and the start of the new dealing systems in equities and gilt-edged securities. "Of course I have concerns about tha technology. As we speak today, some of the technology is still on the drawing board. One won't be entirely content with that until it's up and running and we've demonstrated that it all works. But although technological hiccups may impede the speed of progress in this initial stage, they are not going to interrupt things permanently."

He also takes the threat of competition from the big foreign-owned securities firms very seriously. Unlike New York and Tokyo, London is not backed by a strong domestic economy providing a large flow of domestic business. British houses are not familiar with "dual capacity" trading, in which firms are able to act both as an agent on behalf of the investor and as a market maker taking positions in a given stock on their own account. And they have smaller capital.

The Eurobond market, says Sir Martin, provides an object lesson in that no British house, apart from S. G. Warburg, has made a serious and lasting impact. Inevitably, after the Big Bang, some domestic firms will fall by the wayside. There will be more mergers and acquisitions by foreigners. And the threat is not purely American. "In London the Japanese are going to be formidabla competitors. We recognise that and have to make sure that we provida investors with tha best quality service on competitive terms

Barclay's competitive advantage in today's markets, ba believes, will lia in the combination of capital, worldwida busines connections and investment banking expertise. "This should mean that we are able to compete on level terms in all areas of capital markets business. Of course you can't catch up and deliver that standard of performance overnight but if you have the objectives clearly enough in mind you can certainly stand a very good chance of getting there. The management problems are not insoluble."

Nor is the Glass-Steagal Act in the United States, which insists on tha separation of commercial banking and investment banking, a serious obstacle to the transatlantic aspirations of the clearing bank-based City conglomerates, according to Sir Martin. The legislation will, in his view, be swept away in four to five years time.

The Fed's ruling on the purchase by the Japanese commercial bank Sumitomo of a stake in leading New York investment firm Goldman Sachs will be an important indicator of tha wey the wind is blowing. For the key to the removal of the legislation is the need for new capital in the securities business, which will reduce the securities industry's long-standing hostility to the commercial banks' demands for a more relaxed approach.

And then, for a brief moment, diplomacy gave way to blunt talk, as we came to the British Government's $4bn raid on the international capital market to top up the reserves, in which Crédit Suisse First Boston and S. G. Warburg acted as lead managers. "Of course it's a disappointment to me that the Government chose one British and one non-British firm in tha recent floating rate note issue. I'll give you just a short analogy from the motor industry. If everyone in Britain buys German motor cars, the German motor companies are the ones which make the profits and out of those profits comes the research into new models which improves the economics of buying German cars and so the process is self-fulfilling. We have to guard very stringently against our people developing in financial services a propensity in this country for buying foreign instead of buying British."

But wasn't Crédit Suisse First Boston employing British people, paying British taxes and contributing to the British balance of payments on the current account? Diplomacy made a come-back: "I think CSFB is a wonderful firm and did the business extremely well. What I'm saying is that the business could have been done just as well by a group of exclusively British-owned firms and I would like to see that recognised so that we don't get into the same position as the motor industry."

Leaving aside this sorry official failure to support home industry, has the restructuring of the City succeeded in making London more competitive as an international financial centre? Certainly London is the dominant centre in the European tima zone, says Sir Martin, and when American and Continental firms have made major investments in Britian, the resulting increase in activity tends to lead to another self-fulfilling process.

But there is no room for complacency. Both the French and Germans have become more aware of the advantages of deregulating their own capital markets to win back business from London. And, with the West German economy generating the second largest capital outflow in the world after Japan, Frankfurt is a potentially dangerous competitor.

Sir Martin also admits to apprehension over the cost of the regulatory system he helped devise. Unlike the American Securities and Exchange Commission, which makes money out of vetting prospectuses, tha SIB is not allowed to make a profit. And he accepts that there is a risk of scandal as a result of increased competition in the wake of the Big Bang. "I think it is quite likely that there will be some problems But people should not then say the emergence of such problems shows that this system of regulation that we're adopting is defective, because it won't prove any such thing. What it will prove is that when competition intensifies and profits are hard to find, people cut corners, which is a self-evident proposition anyway."

For his part, Sir Martin is self-evidently nice. Whether that diffident charm hides the steel that will be needed to turn BZW into a major force in international investment banking we shall not find out for quite some time. But it would be surprising if the man who masterminded the British Telecom flotation at Kleinwort Benson did not enhance BZW's domestic reputaiton. The big guns will surely be on his side

PERSONAL FILE

1929 Born November 11; educated at Eton and Worcester College, Oxford.

1948-49 Second lieutenant, Royal Artillery.

1955 Called to the Bar, Inner Temple; contributed to Financial Times as tax correspondent.

1968 Joined Kleinwort Benson; vice-chairman 1976.

1983 Deputy chairman, Council for the Securites Industry; panel on Takeovers and Mergers.

1985 Left Kleinworts to become vice-chairman of Barclays and chairman of Barclays de Zoete Wedd; vice-chairman Securities and Investment Board.

1986 Director, Bank of England. Other directorships include, Christian Salvesen, Hudson's Bay Company, Commercial Union Assurance, British Gas.

Reflections on the Craig affair

JOHN LLOYD

MONDAY PAGE readers were last week given a fine essay on the theme of press freedom by Justinian. The excuse for returning to the subject is an ability to report personal experience, coupled with that experience's relevance to the professional concerns of many FT readers.

Some readers will remember that the New Statesman was prevented, by an injunction granted to the Government last week, from publishing a valedictory despatch to Sir Geoffrey Howe, the Foreign Secretary, from Sir James Craig at the end of his tour of duty as Ambassador to Saudi Arabia in June 1984. It was confidential: such despatches always are. It was also frank, critical, though with an undertow of affection, drawing on a wide breadth of experience. In granting the injunction, tha judge upheld tha Government's contention that publication of the document would adversely affect relations between Saudi Arabia and the United Kingdom.

How it came into the Statesman's possession is a separate matter from tha main concern here, and cannot be discussed for legal reasons. Like all such occasions, it raises urgent ethical questions (besides the legal ones) which have to be addressed. One comment has to suffice: much confidential information which comes into the hands of a newspaper, whether verbally or in the form of a document, often involves the breach of some kind of trust on the part of the "leaker." Such material is published in media outlets every day.

Most Cabinet Ministers leak, as Mr James Prior was candid enough to admit in his recent memoirs.

If a general *Omerta* were really observed throughout public and professional life, the quality and quantity of informed journalism would be greatly reduced—though there is an argument, which cannot be dismissed, that, if they were relieved of pressure, largely from peer groups, to get "exclusives," journalists could develop otherwise atrophied thought processes to produce better analysis.

But that is not the heart of the argument. This is that the "freedom of the press" and the "public right to know" (naither of which are absolutes or constitutionally enshrined in the UK) are at times a burden on the operation and practices of business. The reason is that they can give the edge of knowledge to competitors, or reduce customers' confidence in a given company or even country or—as in the Statesman case—they can cause anger or embarrassment at State and thus commercial levels. In short, a free press is putatively inimical to free enterprise even while often being a creature of it.

This newspaper knows that as well as any. Its privileged position means that it gets commercially sensitive information more readily than others: its reputation means that publication of such information carries more weight. An experience of mine, when a relatively new reporter at the FT, was not untypical. A senior and aggressive industrialist argued to me that a feature planned for the next day would ruin his consortium's chances for a huge contract in a three-cornered fight for a slice of—ironically—the Saudi telecommunications market. Tha featura was published; the consortium did not win the contract; we were never told if the FT's publication had contributed to that state of affairs.

That kind of pressure, usually directly on tha editor himself, is constant on national newspapers. It is usually resisted: but there is not much of a social support mechanism outside journalism for doing so. If business peopla are confronted with the choice between agreeing that a paper has the right to publish information it believes to be true, or, on tha other hand, that it should hold hold back or drop it to prevent commercial damaga (especially to one'a "own side"), few would choose the former. Why publish *now* rather than later? Why publish *these* facts rather than others (like those damaging to our competitors)? More radically — do you not recognise that your "right to publish" rests only, ultimately, on a free and prosperous economy?

I put the Statesman case for publishing the Craig despatch to a group of some 50 business peopla to whom I happened to be talking last week. One or two — all had been journalists in their pasts — broadly supported the case. The rest were in varying degrees hostile. A few had difficulty in continuing to observe the social courtesies.

No surprise: who does not react to protect his self-interest? But the debating points were hard ones. They included: how far was a decision to publish motivated by hostility to the Government? Is not confidentially between public servant and minister essential for democratic government? Why be so determined to publish views which might damage but have no great revelatory content and thus do not really fall into a grandiose "right to know" category?

The "right to publish/know" position does not stand up to such a barrage unscathed, nor is it able to claim unimpeded the moral high ground. But it still has this justification: that State and corporate powers are only partly trammelied by democracy; that a free and inquiring press is effectively muzzled if it does no more than accept the agenda and handouts of either of these powers, which have only an abstract interest in the right to know; and that to accept these powers' classification of which information is confidential is to assume a general willingness to be open which, in this ociety especially, has not been always and everywhere evident.

At a more pragmatic level, there is clearly no direct relationship between a complaisant pres and a successful economy. The United States has an inquiring press constitutionally encouraged to publish, yet its economy remains dynamic. The media of most stagnant dictatorships are muzzled.

As the unbridled instincts of state and corporate power lead to indiscriminate secrecy, so the instincts of journalism can lead to publishing facts directly dangerous to life and limb, or to criminality, or near it, on the part of the journalist. The first of these is unsupportable, the second a moral swamp. But it is necessary not to include in the swamp the assumption that what is good for business is good journalism and vice versa. It ain't necessarily so.

John Lloyd is editor of the New Statesman.

ALL THAT EFFORT GOING INTO MISSING ONE TRAIN, WHEN HE COULD SIT HERE AND MISS HALF A DOZEN IN PERFECT COMFORT.

The ungrateful investor

By Barry Riley

COUNT DOWN — DAYS TO BIG BANG — 7

THE GLEAMING new integrated securities firms are just polishing up the last items of advanced technology and filling the final trading desk vacancies with the aid of a golden hello or two.

But the question arises as to whether they have paid enough attention to the only people who can make the expensive new organisations work — namely the clients.

A study of the opinions of fund managers in a cross-section of 125 investment institutoins will appear in next week's comprehensive FT survey of the City Revolution. But I can give a sneak preview of some of the results of the poll, which was carried out for the Financial Times by MIL Fesearch Group.

"A disaster" was one institutional view of Big Bang, "a charter for dishonesty" was another, and "a retrograde step in all directions" was a third. Some, it should be said, did recognise potential benefits from lower commissions and increased competition.

Yet the overall impression was of a group who feared being jolted out of their comfortable corners just as much as the stockbrokers—and unlike the brokers they were not being offered small fortunes to compensate them for their discomfort.

Certainly the institutions are scarcely rushing to change their own systems to adapt to the naw structure of the securities markets.

Only about a third of the institutions employ in-house dealers, a prerequisite if they are to exploit their new opportunities for screen-based trading directly with the marketmakers. Another 7 per cent thought they would be employing in-house dealers after Big Bang. That would still leave about 60 per cent without such facilities.

It is true that around half the fund managers polled thought they would respond to Big Bang by cutting the number of brokers they would be dealing with, presumably so that they could concentrate their favours and negotiate keener commision rates.

But on average, funds appear to deal with around 25 brokers —perhaps 15 on a regular basis —and a few funds trade with more than 60 firms. Fund managers are always suggesting they will trim their lists of brokers, but they rarely appear to achieve their aim.

In fact, various new firms, including several of the major US investment banks, will be intensifying their efforts in London after attaining Stock Exchange membership on Big Bang day, so the institutions could find themselves dealing with even more securities firms if they are not careful.

There was a very wide spectrum of views on how dealing would be carried out in tha London market after Big Bang. One important question is the extent to which the institutions will continue to trade on the existing commission paying basis, and how much on a "net" basis, with all the securities firm'a remuneration wrapped up in a spread between buying and selling prices.

Almost a third of the fund managers declined to express a view, and the rest were fairly evenly spread across a range from 0 per cent to 100 per cent. They were polled in the first half of September, well ahead of the VAT decision which could enhance the attractions of trading net for many funds.

As for the formula by which brokers' research might be remunerated when the funds dealt on a net basis, there was a very wide range of views here too. These were difficult to summarise, but some thought there might be fees, either on a flat or transaction-related basis, others did not expect to pay at all, and a fifth were don't knows.

Such inconclusive results indicate that a consensus has yet to build up.

Regulatory factors could play a crucial part. One of the attractive aspects to fund managers of paying commission is that it is a way of paying for services such as research by using clients' money rather than their own.

If new regulatory bodies such as the investment management SRO called Imro are tough on disclosure in this area, there could be more payment of direct fees.

But if Naw York experience is anything to go by, and if our own Securities and Investments Board's recent drafts are borne out, "soft" commissions are here to stay.

At any rate, 60 per cent of the fund managers were of the view that there would be no scope for the development of independent investment research houses after Big Bang. Research would still be bundled up with the transaction side of the securities industry.

That is certainly tha way it turned out in New York after deregulation there in the mid-1970s. Yet 38 per cent of the British fund managers thought there might be scope for non-broker research in the UK, so opinion is by no means unanimous on this point.

The general impression, however, is that most fund managers greatly preferred the old stock market trading system. Perbaps that is not surprising, given that in the absence of price competition, brokers were driven to vie with on another to pile on the services to fund managers.

The new world will be less privileged for fund managers. "Where will we get our impartial advice?" complained one. He might well ask.

MANAGEMENT

General Motors in Europe

A move to correct past errors

GENERAL MOTORS, the world's largest automotive group, has changed direction in Western Europe. Over the past six years it has spent $7bn developing its business, increased Opel and Vauxhall car sales by 40 per cent, but at the same time incurred huge losses.

GM has set up for the first time an organisation somewhat similar to that of Ford of Europe to co-ordinate activities in 17 European countries, a move which it hopes will ensure past errors are not repeated.

A group of key managers has been moved to the new unit—General Motors Europe, passenger cars. It is based in Zurich, Switzerland, with Ferdinand Beickler, a GM vice president and former head of Opel, as president.

The new organisation is responsible for setting GM's European business plans and strategy, co-ordinating the efforts of most of the car sales companies in individual markets and liaising with various governments.

All this was previously handled by Opel which now has a much more clearly-defined task: to design, develop and build cars and to sell cars in West Germany.

There are two views of this change.

One, which is widely held among GM's rivals, is that GM at last is wrestling the European reins away from Opel, its West German subsidiary, which has not only imposed a German viewpoint across the whole of the business but also has the disadvantage of being based in a country where manufacturing costs are among the highest in the world.

GM's own view, according to Robert Stempel, the executive vice-president responsible for all GM operations outside North America, is that the move recognises that GM dumped too much responsibility onto Opel and Opel was beginning to creak under the strain.

GM once had a touching faith in the fast development of the EEC. But, not only did Opel have to develop and build cars for Europe, it also had to cope with the complexities of selling them in markets with very different requirements, legislation and languages and liaise with national governments and the European Commission.

GM's new organisation will relieve the beleagured Opel of much of this responsibility, says Stempel. "It would have been difficult to have a truly neutral approach if the new unit had been located within Opel," he adds. "Let's face it, 50 per cent of Opel's business is within Germany. It is very much a German company."

Stempel says GM sees "a change in Europe that requires our operations in cars and trucks to be very much in tune with European needs and one only has to look at all the different regulations in the different European markets to understand that what works in Germany might not work in Spain or in France.

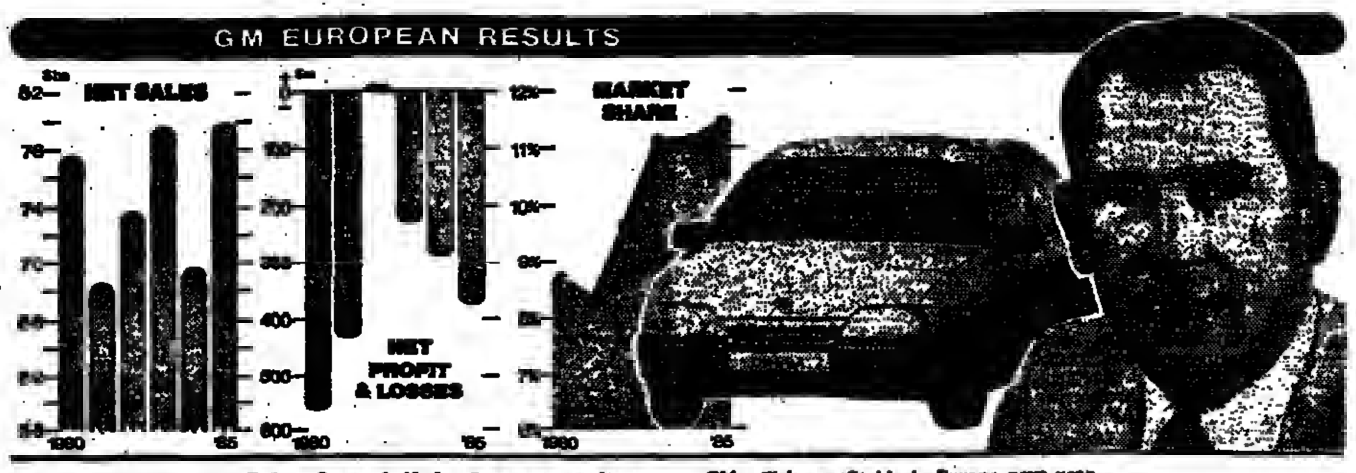
"There is no such thing as a Common Market. We have found we must go country by country in Europe. There really is no substitute for that."

John F. "Jack" Smith Jr, 48, moved by GM from the presidency of its Canadian subsidiary to play a key role in the new organisation where he is executive vice president operations and engineering and tipped to take over when Beickler retires, points out that the Japanese will soon be setting up production bases in Europe, following the example set by Nissan in the UK. "So we must be sure we are a low-cost producer."

Sixty per cent of the cost of a car is accounted for by materials and bought-in components so GM "will have to attend to that, too," he adds.

The implication is that the Opel-dominated European operations have been relying too heavily on high-cost German components and Smith, who has spent all his career so far in North America and is thus free from any undesirable Opel — or even European — influences, is about to attend to that.

It is 10 years since GM's previous major reorganisation in Europe took place after the group decided it needed to do better outside North America — elsewhere in the world it was an also-ran.



Robert Stempel: If the Omega meets its targets, GM will be profitable in Europe next year

Opel was handed responsibility for developing cars for Europe, including those to be assembled and sold by Vauxhall, GM's subsidiary in the UK, while Bedford in Britain was to take the lead in commercial vehicles.

While the Bedford project turned out to be a disaster, culminating recently with GM's decision to stop building medium and heavy trucks in Europe, Opel developed a new range of cars which found wide acceptance.

The expansion of Opel's role began when it was included in GM's "world car" project; this resulted in the range sold as the Opel Ascona and Vauxhall Cavalier in Europe (in the US it has a number of names such as Cadillac Cimarron, Chevrolet Cavalier and Pontiac 2000).

As a result of this programme, Opel has found itself developing cars and engines for GM-Holdens in Australia as well as Vauxhall and engines for GM's subsidiary in Brazil.

Opel provided the expertise, and some of the capital, for GM's first move into the small car business in Europe. The group established a new car assembly plant in Spain to make the Opel-designed Corsa, known also as the Vauxhall Nova, together with associated components facilities in that country and an engine factory in Austria.

More recently, as GM's operations began to coalesce into one global car business and it sought out low-cost suppliers of both cars and components, Opel was roped in to supply technical know-how to Daewoo in South Korea and for a new Egyptian venture.

Daewoo is building a car based on the Opel Kadett (sold in Britain as the Astra). In Egypt GM has a major project where the car to be assembled is the Ascona/Cavalier and the group has persuaded several components companies to set up a supply base there.

Both South Korea and Egypt insist that multinationals involved in their domestic markets must contribute heftily to the economy by exporting. So Korean and Egyptian components will be imported to Europe by GM. Opel had to identify suitable products and will be responsible for finding uses for them.

While all this was going on, Opel also had to supervise the efforts of GM's car sales organisations in 17 highly-disparate and extremely competitive European markets.

Even so, a great deal was achieved. GM's European car sales this year will reach about 1.3m, or 40 per cent more than in 1981, to give it a West European market share of 11.3 per cent, up from 8.3 per cent five years ago and placing it neck and neck with Ford of Europe but ahead of Peugeot-Citroen and Renault of France. There is, however, bad news at the bottom line.

Opel, once known in GM's Detroit headquarters as the "money machine" because of the huge profits it generated, slumped into the red in 1980 for the first time since 1948. Only in one year since then has Opel returned to profit.

GM's total European results mirrored this performance. Since 1981 losses in Europe have totalled $1.87bn.

Its rivals point to the losses and accuse GM of blatantly buying market share in an attempt to match its major rival, Ford, in Europe. GM denies the charges—which suggests the losses were not part of a planned programme and completely unforeseen.

The obvious conclusion now reached by GM is that, if it has achieved the volume of sales it hoped for in Europe but is still losing money, then costs must be too high. If GM is ever to achieve a reasonable return on its huge investment—$1bn a year for new facilities at Opel alone; $2.4bn to bring the Spanish-built small car to the market—costs must be reduced.

A substantial start has been made and Stempel says that, as long as all goes well with volume and profit targets for the new executive car recently launched as the Opel Omega/Vauxhall Carlton, GM will be profitable in Europe next year.

There is still some way to go, however.

Smith says GM wants to see further increases in productivity which means the 100,000 European jobs provided by the car operations must be reduced by an average of 5 per cent a year for the foreseeable future. This is similar to what is happening within Ford of Europe.

The group expects to achieve the cuts entirely by not replacing people who retire or leave the company for other reasons. Smith acknowledges this might be difficult because in the past average annual wastage has been about 4 per cent.

However, he stresses that GM of Europe, in line with its strategic role, has not set rigid objectives for its subsidiaries but has outlined guidelines for individual managements.

Stempel says benefits of the new GM of Europe concept are already showing through. "It is showing up in our long-range planning, vis-a-vis the effectiveness of the workforce; where to place future production; how to increase the local content of Vauxhall vehicles in the UK as the British Government has asked us to do."

He says the Egyptian project might not even have got off the ground without GM of Europe. "The Egyptian venture probably makes more sense from a US viewpoint than from e European viewpoint. It is seen more favourably on this side of the ocean. But by having Passenger Car Europe involved, I am confident we won't make a wrong move as we develop a supply industry.

"Passenger Car Europe is sensitive to where the excess capacity is in Europe, where we have good component supply sources that are going to be around a long time. So they can be very helpful in the selection of component companies we put into that country. That's an enormous piece of strategy today, to make sure that we recognise the core of European suppliers that are important to us."

But was it necessary to move 250 people expensively to Zurich? Could not the same results have been achieved by basing GM of Europe in part of the Opel headquarters at Russelsheim? Ford of Europe executives live alongside Ford of Britain people at Warley in Essex.

Stempel says: "The reality is that when they are building cars about 50 feet away, there is a great tendency to focus your efforts on what's going on in the factory. By being separate, the Passenger Car Europe executives can stay on target with the business plan and other business issues and really stay focused on that."

None of the GM of Europe executive jobs is duplicated at Opel, he points out, "and we must be very careful we don't run with duplicate staffs, don't do things twice and add another layer in the chain of getting things done."

Stempel sums up: "The real measure of the new organisation's success will be if we can see Opel operating efficiently, profitably and at the same time see the value added by our headquarters organisation: see we do improve our car market penetration in some countries, see we are responding faster to country by country rules and we really do keep our finger on the pulse of what is going on in Europe."

Corporate culture

Battling with 'core beliefs'

BY STEPHANIE YANCHINSKI

"IS CORPORATE culture manageable? The straightforward answer to that question is—with the greatest difficulty."

Dr Andrew Pettigrew, a leading international expert in the newly fashionable subject of corporate culture, is clearly sanguine about the chances of many managements being able to retool their cultures fast enough to keep pace with the rapid changes in strategy that are needed to remain competitive in today's business climate.

In a keynote address to the sixth annual Strategic Management Society Conference in Singapore last week, Pettigrew, who is professor of corporate strategy and change et Britain's University of Warwick, warned that strategic change now had to be viewed not only as an analytical and cerebral process, but as e highly complex human one.

Pettigrew's exhaustive study of Imperial Chemical Industries, published last year*, lays great emphasis on the crtical but difficult process of changing the "core beliefs" of top management—which is obviously a key factor in the theory and practice of managing strategic change.

As Pettigrew told the Singapore conference, at ICI "the problem was how to break down the core beliefs of the top decision-makers" in the face of the rapidly changing economic and marketing climate from which the company was suffering.

"As the old beliefs were questioned, so a new ideology was introduced by Sir John Harvey-Jones, the chairman, and others, which emphasised a sharpening in market focus, a greater entrepreneurial emphasis, a lessening of bureaucracy and central control."

Conventional wisdom in business policy has decreed that changes in attitudes and organisational structure should follow changes in business strategy.

Rather, Pettigrew thinks that from the new cultural milieu flowed a new business strategy. From operating at e loss in 1980 ICI swung back into strong profitability in 1984 and 1985.

The discussion of corporate culture by an international gathering of management academics, businessmen, and consultants came at a particularly trying time for many American and European industries struggling to revitalise and compete against Japan. In this battle "Nobody doubts that culture is important," said Peter FitzRoy, Professor of Administration at Monash University, Melbourne, Australia, and co-organiser of the conference.

But even strong companies face problems in rapidly adjusting to changing circumstances dictated by shifting politics, social factors and fast moving technology. Then a solidly entrenched culture can become "a serious constraint to strategic change unless it can be orchestrated," FitzRoy commented. And "we still do not know which levers to pull."

Philosophies

In his paper Pettigrew listed at least seven barriers to changing corporate culture. These include such things as entrenched power interests, deep historical roots, conflicting sub-cultures and the interdependence of particular corporate philosophies and structures.

Moreover, corporate culture "refers not just to people, their relationships and beliefs. It also refers to their views about company products, structures, corporate purpose and modes of recruitment, socialisation and reward," Pettigrew says.

Such pervasiveness, added to the fact that much of corporate culture is taken for granted, means that "it is remarkably difficult to change things which are implicitly part of people's thinking and behaviour, and are rarely brought out explicitly for consideration." Taken togther these "seven issues make corporate culture remarkably difficult to manage, and certainly to change."

* *The Awakening Giant. Published by Basil Blackwell at £29.50 hardback, £12.50 paperback; and $34.95 hardback, $19.95 paperback.*

CONSTRUCTION CONTRACTS

Finsbury Avenue scheme

LAING MANAGEMENT CONTRACTING has been appointed by Rosehaugh Greycoat (Phase 2) to be the management contractor for a £13m contract to complete the last phase of the Finsbury Avenue development scheme. The final phase, 2 Finsbury Avenue, is the construction of a steel-framed fast track office building covering 15,000 sq metres gross and comprising seven storeys together with ground floor and basement. The client has kept the same project team for 2 Finsbury Avenue which had worked on Numbers 1 and 3 Finsbury Avenue. The work will start early in 1987 and the building, which will be to a shell and core construction, will be completed in 11 months.

John Laing Construction has been awarded a £10m contract by Lewis Shop Holdings. The contract is for the erection and completion of a 10-storey office building with roof and ground floor plant rooms together with associated external works and services at West Gate, Ealing, London. The work will span a period of 76 weeks with completion scheduled for spring 1988. When it is completed, Lewis Shop Holdings will be occupying a substantial part of the building.

Supermarket project in Bradford

FAIRCLOUGH BUILDING has been appointed main contractor by Wm Morrison Supermarkets for a retail/industrial complex in Bradford. On a contract worth £9.7m, the Leeds division will construct the Enterprise 5 complex at Five Lane Ends, Idle. The scheme includes the erection and completion of a superstore, together with non-food retail units, an enterprise centre and industrial units. Fairclough will also carry out the necessary external works, car parks, landscaping, access ways and drainage. When it is completed, the complex will create over 500 jobs in the area. Fairclough Building is part of the AMEC construction and engineering group.

*

J. F. DONELON & CO has been awarded the Halifax main sewerage reconstruction scheme, stage two, for the Borough of Calderdale. The contract involves the construction of 1,260 metres of tunnel using a Lovat TBM with rockhead, eight shafts as well as ancillary connecting sewers and also a large reinforced concrete storm water overflow. The project will cost about £4m.

Supply base for health authority

WIMPEY CONSTRUCTION has been awarded a design and construct contract by the Yorkshire Regional Health Authority for a regional distribution warehouse at Normanton. The £3m building, believed to be one of the first of its kind in the country, will house the regional supplies staff headquarters and will be linked to computer terminals throughout the region. The centre will control the purchase, stocking and distribution of 7,000 categories ranging from surgical suplies and foodstuffs, to nurses' uniforms and cleaning materials. The centre will have a floor area of 10,500 sq metres, comprising 8,200 sq metres of warehouse space and 1,700 sq metres of office accommodation on two floors.

*

BARR & WRAY has secured a £1m contract for the design and construction of equipment for three leisure pools in Birmingham, Perth and Aberdeen. Both the City of Birmingham—Cocks Moor Woods—and the Aberdeen District Council leisure centres will also incorporate the Barr & Wray wave generation system. The pools for Aberdeen and Perth leisure centres will also incorporate the Barr & Wray ozone plant system—similar in design to the system used at the Royal Commonwealth Pool during the recent Edinburgh Commonwealth Games. The Perth leisure centre will also incorporate numerous water features such as rapids, fountains and whirl-pools.

*

WILTSHIER NORTHERN has won the following contracts worth around £770,000: reroofing a leisure centre at Newton Aycliffe, Co Durham, for Sedgefield District Council has a value of £399,316; brickwork/blockwork and carpentry/joinery works for British Telecom North East District Office, Newcastle upon Tyne, value £270,654; and extensions to shop units and Lloyds Bank at the Central Area Redevelopment, Peterlee, for Teesland Peterlee, value £104,000.

Sunderland shopping development

ALFRED McALPINE has been awarded a design and build contract worth over £1.3m by a joint venture company owned by County Properties and Evans of Leeds. The contract, which is being carried out beside the railway station in the centre of Sunderland, entails the construction of a two-storey shopping development over the railway track. The building will be steel framed with blockwork internally and facing brick externally. When it is completed, the development will consist of eight ground floor shop units with first floor storage.

Alfred McAlpine has also been awarded a contract worth over £230,000 by Shell UK for construction work at its premises at Stanlow, South Wirral. The contract is for Phase III in a series of works being carried out at the batch carbonisation plant, Stanlow Refinery, at Ellesmere Port. The work involves the construction of reinforced concrete tank foundations and bond walls, plus access roads and drainage.

Housing for the American Air Force

WALTER LAWRENCE PROJECT MANAGEMENT has been awarded a design and build contract by the Property Services Agency for 200 family houses for the US Air Force at RAF Woodbridge, Suffolk, at a cost of US$14.5m (£10m). A considerable amount of the materials for the timber-framed houses will be imported from the US. Work will start soon and the contract will be completed in April 1988. The project will be supervised by the PSA on behalf of the US Government.

*

TAYMECH, the building services contractor of the Taylor Woodrow Group, has been awarded a £172,000 contract by Naylor and Walkden, main contractors to the Preston Health Authority, for work at the Sharoe Green Hospital in Lancashire. The project entails the complete renovation and conversion of existing facilities into a cold orthopaedic unit. The section will consist of an operating theatre, jointly used ward and amenity areas. New services will include auto-clean facilities for a bacteria-free atmosphere in the operating theatre, oxygen and nitrogen feed lines, plus general plumbing including hot and cold water. Work is scheduled for completion early next year.

*

A. E. SYMES, a subsidiary of John Willmott Building Group, has been awarded a contract worth in the region of £1.13m by British Telecommunications for the refurbishment of Mondial House, Upper Thames Street, EC4, to form offices. A. E. Symes has also won a contract worth in the region of £445,000 from Haslemere Estates (Developments) for the refurbishment of a four-storey office block at New Cavendish Street, W1.

*

One of the most prestigious Victorian buildings in Preston, the Miller Arcade, is to be renovated and improved by management contractors BOVIS CONSTRUCTION for clients Town & City Properties Management. The 18-week contract, valued at £400,000, is due for completion in December. Built in 1899 in terracotta and brick the Arcade's ornate mouldings will be cleaned down and repaired. Internal refurbishment work to the terracotta and glass roof will also be carried out together with elaborate floor tiling and the provision of hardwood doors/screens to the four street entrances.

DIARY DATES

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Howard Shuttering, The Crown, 118, London Road, Morden, Surrey, 10.30
NESCO Inv, Friendly House, 21-24 Chiswell Street, EC, 12.00

BOARD MEETINGS—
Finals:
Lowland Inv
Manganese Bronze
North Sea Assets
Interims:
Bartley
Barlows
Clayform Props
Forward Technology Inds
Highland Dists
Lees (John J.)
Snowdon and Bridge
Sovereign Oil and Gas
Triefus
Usher-Walker

DIVIDEND & INTEREST PAYMENTS—
Blue Circle Inds 6p
Church and Co 2.5p
Costain Group 7p
Floor Corp 10cts
IMI 2.5p
Johannesburg Cons Inv 875cts
Linread 1p
Lloyds Eurofinance Gtd Fltg Rate Nts 2004 $173.44
Merrydown Wine 5p
Nat West Finance Gtd Fltg Rate Cap Nts 2005 $345.85
Owen and Robinson A 5p, B 5p
Persimmon 2.1p
Sheldon Jones 3.3p
Sweden (Kingdom of) Fltg Rate Nts April 2005 $321.25
Trencherwood 1.65p
Wells Fargo 50cts
Wyndham Group 1p

TOMORROW

COMPANY MEETINGS—
Artra Industrial Group, La Reserve, Boldmere Gate, Sutton Coldfield, West Midlands, 12.00
F & C Eurotrust, 1 Laurence Pountney Hill, EC, 2.30
Jarvis (J.), Eccleston Hotel, Eccleston Square, SW, 12.00
Micro 4, Waldorf Hotel, Aldwych, WC, 12.00
Polypipe, Drapers Gardens, 12, Throgmorton Avenue, EC, 12.00
Trent Holdings, Milnbay Road, Langley Mill, Nottingham, 12.00

BOARD MEETINGS—
Finals:
London and Prov Shop Centres
Prestwick
Interims:
Ambrose Inv Tst
British and American Film
Densitron Intnl
Derwent Valley
Nashes Food
Runciman (Walter)
Silentnight
Wettern Bros

DIVIDEND & INTEREST PAYMENTS—
Black (A. and C.) 3.5p
Co-operative Bank Sab Fltg Rate Nts 2000 $128.39
Howard Shuttering 0.7p
Jarvis (J.) 10p
Johnstone's Paints 1.765p
Lambert Howarth Group 2p
Ryan Hotels 0.5p
Williams (Rex) Leisure 0.42p

WEDNESDAY OCTOBER 22

COMPANY MEETINGS—
Bogod-Pelepah, High Holborn House, 52-54 High Holborn, WC, 12.00
London Securities, Chesterfield Hotel, 35 Charles Street, W, 11.00
Pifco Holdings, Stanneylands Hotel, Stanneylands Road, Wilmslow, Cheshire, 10.00
Ratcliffe (F. S.) Inds, Midway Hotel, Manchester Road, Rochdale, 10.00
Trade Promotion Services, Saddlers' Hall, Gutter Lane, EC, 12.00

BOARD MEETINGS—
Finals:
Intal City Hldgs
Sinclair (William)
Interims:
Carlton Inds
El Oro Mng and Expln
First Charlotte Assets Tst
Hammerson
Hawker Siddeley
Secs Tst Scotland

DIVIDEND & INTEREST PAYMENTS—
Bristol and West Bldg Soc Fltg Rate Nts 1992 $128.39
Industrias Penoles Fltg Rate Nts 1989 $235.56
M-E Intnl 1p
Provident Financial Group 4p
R Pacific Basin Inv Tst 0.5p
Trade Promotion Services 3.2p
Wilson (Connolly) 6.8p

THURSDAY OCTOBER 23

COMPANY MEETINGS—
Elbief, Prince of Wales Lane, Birmingham, 12.00
London Shop Property Trust, Savoy Hotel, Strand, WC, 12.00
Neepsend, Kenwood Hall, Kenwood Road, Sheffield, 12.00
Sirdar, Cedar Court Hotel, Wakefield, 12.00
Strong and Fisher, Great Eastern Hotel, Liverpool Street, EC, 12.30

BOARD MEETINGS—
Finals:
Investors Cap Tst
McKechnie Bros
Pressac
Rand Mines Props
Really Useful
Interims:
Anchor Chemical
British and Commonwlth Shipping
Fab Intnl
Ferguson Ind
French Connection
Garrard and Natl
Hay (Norman)
London and Nthrn

DIVIDEND & INTEREST PAYMENTS—
Automagic Hldgs 4p
Bogod-Pelepah 0.2p, A 0.4p
Brammer 4.5p
Corporation Syndicate 5cts
Federated Housing 1.5p
Fisher (James) 1.68p
Framlington Group 6p
Home Counties Newspapers 3.25p
Intnl Business Commun 0.75p
London Shop Property 4.05p
Pifco Hldgs 4p, A 4p
Polypipe 1.1p
RFD Group 7½pcDb 1986-91 0.4726pc
Scottish Heritable Tst 1.8p
Steel Burrill Jones 2.4p
Tweefontein Utd Collieries 17.74685p

FRIDAY OCTOBER 24

COMPANY MEETINGS—
De Brett (Andre), Great Eastern Hotel, Liverpool Street, EC, 11.00
Estates Property Inv, Armourers' Hall, 81 Coleman Street, EC, 12.00
Goodman Bros, Westbury Hotel, Conduit Street, W, 12.00
Merivale Moore, Savoy Hotel, Strand, WC, 12.00
Quest Automation, Quest House, School Lane, Chandler's Ford, Hants, 11.00
Walker (Alfred), 69 Grosvenor Street, W, 12.00
Whitworth Electric, Trevena House Hotel, Alton Road, Farnham, Surrey, 3.00

BOARD MEETINGS—
Interims:
British Assets Tst
Clayton Son and Co
Dean and Bowes
Photax (London)
Smallbone
Toshiba
Upton (E.)

DIVIDEND & INTEREST PAYMENTS—
Atlantic Assets Tst 1.1p
Brammer 1p
CPC Intnl 55cts
Cardiff City Council 11pc Red 1985 5½pc
Dialene 3p
Diploma 7pc Cum Red Pf 2.45p
Excalibur Jewellery 0.05p
Halifax Bldg Soc Fltg Rate Ln Nts 1996 £41.17
Holt (Joseph) 4p
Lopex 1.8p
Macdonald Martin Distilleries A 4p, B 2p
Magnetic Materials 1.87p
McAlpine (Alfred) 4p
NCR Corp 23cts
Newwood 0.1p
PCT Group 1.5p
Philippines (Republic of) Fltg Rate Nts 1988 $177.82
Polly Peck Intnl 1.5p
Rotork 2.7p
Sedgwick Group 4p
Southampton, IOW and SOE RM Steam Packet 4p
Tricks Hldgs 1.45p
Thermax Hldgs 4p
Trent Hldgs 0.69p
VG Instruments 1.2p

SATURDAY OCTOBER 25

DIVIDEND & INTEREST PAYMENTS—
British Inv Tst Secbb 1983-88 2½pc
Conversion 9½pc 2004 4¾pc
Fisher 1.38p
Exchequer 11pc 1991 5½pc
General Electric Co 38cts
Manchester (City of) 11.5pc Red 2007 5¾pc
Manufacturers Hanover 81cts
Treasury 9½pc 1988 4¾pc
Treasury 10pc Cnv 1990 5pc

SUNDAY OCTOBER 26

DIVIDEND & INTEREST PAYMENTS—
Australia (Commonwealth of) 11½pc Ln 2015 5¾pc

Parliament

TODAY

Lords: Western Isles Islands Council (Bernera Harbour) Order Confirmation Bill, third reading. Financial Services Bill report (third day).

TOMORROW

Commons: House resumes. Social Services questions; Prime Minister's questions; Unborn Children (Protection) No. 2 Bill; Education Bill, remaining stages.

Lords: Public Order Bill, committee and report (first day); York City Council Bill, third reading.

WEDNESDAY

Commons: Scottish questions; back-bench measure to reduce waiting lists for kidney dialysis; Sex Discrimination Bill, final stages.

Lords: Housing and Planning Bill, report.

THURSDAY

Commons: Northern Ireland questions; Prime Minister's questions; Sex Discrimination Bill, second day; Salmon Bill.

Lords: Public Order Bill, report (second day).

FRIDAY

Commons: Public Trustee and Administration of Funds Bill, remaining stages; Family Law Bill.

Trade fairs and exhibitions: UK

Current
British Motor Show (trade only 15-17 (until October 26) (01-235 7000) NEC, Birmingham

October 21-23
International Financial Services and Technology Exhibition (01-940 6065) Barbican Centre

October 21-24
London Business Equipment Show (01-405 6233) Earls Court

October 28-30
Instrumentation Conference and Exhibition — TEST & TRANSDUCER (0622 4671) Wembley Conference Centre

October 29-November 2
International Bike Show (01-385 1200) Olympia

October 29-November 2
London Money Show — MONEY (01-948 5166) Olympia

October 30-November 2
Business Holiday and Travel Show (0272 215206) Exhibition Centre, Bristol

November 9-13
International Woodworking Industries Exhibition — WOODMEX (01-486 1951) NEC, Birmingham

November 11-14
New Technology Exhibition—BARCLAYS TECHMART (021-780 4171) NEC, Birmingham

November 11-14
Compec Exhibition (01-661 4900) Olympia

Overseas

Current
International Office Trade Fair—ORGATECHNIK (until October 21) (01-930 7251) Cologne

Current
International Equipment and Services for Hotels Exhibition—EQUIP HOTEL (until October 27) (01-439 3964) Paris

Current
International Market of Subcontracting Exhibition—MIDEST (until October 24) (01-439 3964) Lyon

October 21-25
International Forestry, Timber Processing and Woodworking Exhibition — WOODWORKING INDONESIA (01-486 1951) Jakarta

October 28-30
Trade Fair for Clothing Textiles — INTERSTOFF (01-734 0543) Frankfurt

October 31-November 2
Skiing and Winter Tourism Exhibition (01-486 1951) Helsinki

November 4-12
National Inventions — NIEX (01-439 0501) Seoul

November 6-9
Hong Kong Trade Fair—INDUSTRY (0206 45121) Hong Kong

Business and Management Conferences

Current
The Economist Conference Unit: Advanced manufacturing—making it work, making it pay (until October 21) (01-839 7000) Intercontinental Hotel, Geneva

October 21
FT Conferences: Developing the Global Market for Equities (01-621 1355) Merchant Taylors' Hall, EC2

October 21-22
L. F. Rothschild, Unterberg, Towbin Inc: European health care investment (01-726 6226) Hyde Park Hotel, W1

October 22
The Royal Institute of International Affairs: Tradeable information—Europe against the world (01-930 2233) Chatham House

October 22-23
The FT City Financial Series: Four half-day seminars on Technology, Marketing Security and Whither the Building Societies? (01-621 1355) Barber-Surgeon's Hall, EC2

October 28
Confederation of British Industry: Getting Government grants (01-379 7400) Centre Point, WC1

October 27-28
Philadelphia Stock Exchange: 1986 International foreign currency options symposium (01-606 2345) Four Seasons Hotel, Philadelphia

October 28
FT Conferences: Financing Tomorrow's Winners (01-621 1355) Robinson College, Cambridge

October 28-31
UK and US Departments of Energy: Energy from landfill gas (0235 24141) St John's Swallow Hotel, Solihull

October 28
CBI/Faegre and Benson: US product liability—managing the risks (01-379 7400) Centre Point, WC1

October 29
Arthur Young Acquisitions and Disposals (0272 290808) Bristol

October 30-31
FT Conferences: The Fourth Professional Personal Computer Conference (01-621 1355) Hotel Inter-Continental, W1

November 2-4
Path fast: International floriculture seminar (02566 78755) Hotel Krasnopolsky, Amsterdam

November 3-4
FT Conferences: The City after the Financial Services Act (01-621 1355) Hotel Inter-Continental, W1

November 5-6
Club de Bruxelles: The future of Agriculture in Europe (Brussels 771 9890) Brussels
IBC: Third annual advertising and marketing financial services conference (01-236 4080) Royal Lancaster Hotel, W2

November 6-7
BIS Applied Systems: Communicating with OSI (01-633 0866) Kensington Palace Hotel

November 9-11
Confederation of British Industry: National Conference 1986 (01-379 7400) Bournemouth International Conference Centre

November 10-11
FT Conferences: European Business Forum—Italy and the international economy (01-621 1355) Rome

November 11
The Royal Institute of International Affairs: Malaysia as a commercial partner (01-930 2233) Chatham House, SW1

November 12-13
Tennessee Associates: Managing for productivity through quality — the right way to manage (06833 6805)

November 13
Longman Seminars: Tax planning on marriage breakdown (01-242 4111) Barbican

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

THE ARTS

Architecture/Colin Amery

The good life in new City school

Schools are often places where we have our first architectural experience. It is curious to return to school as an adult; somehow those intimidating corridors and daunting halls have shrunk. Boys, who are fortunate enough to attend the City of London School, will in the last few years have had the opportunity of making some instructive architectural comparisons.

The old City of London School for Boys on the Victoria Embankment is now empty and waiting its fate as the site of a major American bank. The huge stone palace you see from the River Thames is not a bit like a school. Designed in the 1880s by the firm of Davis and Emmanuel, it could be the centrepiece of some great international exposition. The first thing that strikes you is the power of the five huge arches carried on orders of coupled columns. A lantern on the centre of the roof and columned turrets complete the grand illusion.

I wonder whether the boys found it impressive. Or did their grey flannelled knees knock together at the first sight of these intimidating imperial portals? Whatever the boys felt then, they must have had their infant architectural sensitivities stimulated.

I hope that the suited bankers of the Morgan Guaranty Trust Company of New York, who have to keep the listed parts of the old school, will have a moment for some architectural considerations.

The new school, which opened for business this term, occupies a fine site on the Thames, bounded on the north by Queen Victoria Street and the churchyard of Wren's St Benet's church, and on the south by the public riverside walk.

Less attractive features of the site are the high level road and Baynard House to the west and the four lane east-west road that runs through the site. In architectural terms the new school relates well to its most important neighbours, the brick Wren church and the 17th century plain and elegant home of the College of Arms. From the river too, it has a pleasing symmetry and a central moment of excitement in the glazed entrance atrium. It is, however, without the grand pretensions of the old school.

The new school has been designed by the City of London Department of Architecture and Planning under the direction of Stuart Murphy. They had a difficult site and a complex brief.

First of all they had to find room for 800 boys in the heart of the City. Before building could begin, archaeological evidence of the existence of Baynard Castle, a Roman triumphal arch and other unidentified Roman buildings had to be excavated and examined. Once the edifices of the remote past had been dealt with, the creation of a five level building incorporating a decked over four lane road was not an easy task.

The main teaching block runs from north to south with some 15 laboratories on the top floor and form rooms and seminar rooms below. It is a slightly odd sensation to be dissecting a frog immediately above the roar of a major highway through London. In the spaces like the Great Hall and the Beaufoy Theatre and the central concourse, where a statue of the founder Town Clerk, John Carpenter, dominates, it is possible to feel well shielded from the hectic life of the City. A particularly agreeable spot is the central courtyard, which contrives to have the atmosphere of a cloister.

While it is agreeable to see the roofs and terraces in use in fine weather on the river side of the school, the site of the fenced-in upper playground by the overpass is not an agreeable one. The yelling boys, penned-in by traffic and the high wire fence, for a moment look like a scene from a hard pressed corner of the Bronx.

Nothing can ever forgive the cruel treatment of St. Benet's Paul's Wharf (now the Welsh Church) by the City Engineer and his passion for overpasses and massive roads in the 1960s and 1970s.

It is doubtful whether any other country in Europe (except nowadays Romania) would have treated its architectural heritage as badly as we have in London. Ninety per cent of the surroundings of St Paul's and the Wren churches are architecturally unworthy.

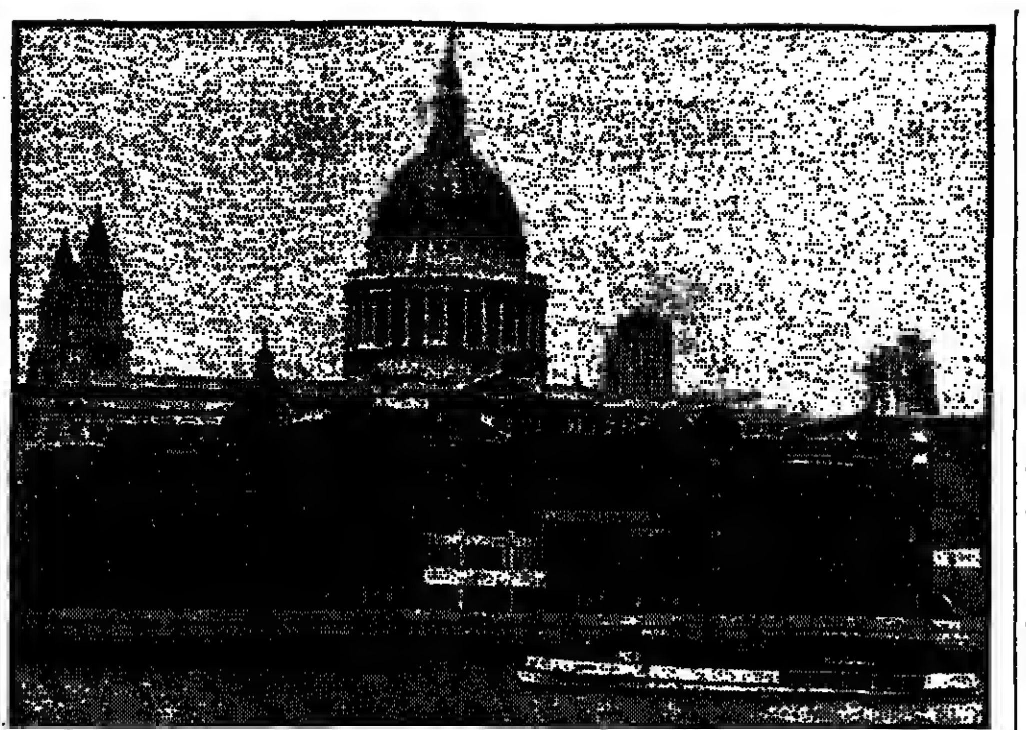
The new City of London School has taken a lot more care. It is built of sympathetic brick, it attempts to echo the round-headed windows of the church and it does, as a whole do all it can to repair the damaged surroundings of one of Wren's most pleasing domestically scaled brick churches.

When the streets climbed up and around the church, the scale of the tower made much more sense but the new school definitely helps. The riverside walk is also a major plus despite the grim architectural prospect of the opposite bank.

It was surely right to keep the school in the City and to give the boys the best possible facilities. They have their own swimming pool and all the classrooms have double glazing and carpets. It can't be a bad life; I suspect many City office workers envy their human scaled and very decent new surroundings.

* * *

Until November 2, another school in a greener setting has an interesting architectural offering. At the Dulwich Picture Gallery there is an interesting small exhibition about the life and work of Charles Barry Junior — an important member of the architectural Barry family who designed Dulwich College. A visit to the exhibition offers the added bonus of seeing the Soane Gallery, the returned Rembrandt, while Mrs Thatcher's neo-Georgian palace, behind the alsatians and security gates, is just down the road.



Glenn Copus

The riverside front of the new City of London School — humane scale and good materials

Symphonic Variations

Clement Crisp

Symphonic Variations returned to the Royal Ballet's repertory at Covent Garden on Saturday night after too long an absence. It was placed at the heart of an Ashton triple bill, where it rightfully belongs, for it is Sir Frederick's most open statement about the nature of the English style of classical dancing which he so vitally shaped. Among its obvious merits is good breeding, those blood-lines of proper schooling in dance, and decent, unforced manners in moving, which gives the ballet its feeling of civilised converse between a cast of three men and three women, whose emotions are controlled by the disciplines of their craft. (*A Month in the Country*, which ended the programme, seemed by comparison almost shocking in its unbridled passions and *fioriture* of emotion).

Where *Symphonic Variations* resembles *Month*, and *The Dream* which opens the evening, is in its acute sensibility about musical and dance phrasing, about how movement can be made to live at the heart of the score and be nurtured by the music: there are few images more immediately lovely in *Symphonic* than the tiny duet for the two "side" women, dancing in parallel and suddenly seeming part of the piano writing.

Symphonic Variations is, I suspect, a ballet that must be kept fresh by under-exposure (like Ashton's *Scènes de Ballet*), but it has had less than five performances annually since it was created 40 years ago, and the richness of its idiom can only be appreciated by its cast and its audience within the context of a repertory in which Ashton's choreography is a continuing point of reference. It is good to note that this revival has been rehearsed by Michael Somes, though it is ironic that the two most essentially Ashtonian performances in the evening came in the other ballets, with Antoinette Sibley in *The Dream* and Anthony Dowell in *A Month in the Country*.

Symphonic Variations' cast is now led by two American dancers, Cynthia Harvey and Jay Jolly, with Wendy Ellis, Karen Paisey, Stephen Beagley and David Peden. They do not as yet move with complete naturalness through its chain of incidents — Ashton's dances should fit their bodies with the ease of superlative tailoring — but they respect its clean, unstressed manner, and Miss Harvey's speed brings real rewards. I wish, though, that Mr Peden had brought off those two outward - spiralling pirouettes, that so perfectly fix the music's shape, with greater boldness.

In *The Dream*, Antoinette Sibley's flawless Titania matched emotions with Stephen Jefferies dark-tempered Oberon, then yielded with grace to him, and chose to ignore what was plainly a tasteless reminder about her dalliance with Bottom with delicious hauteur. Simon Rice was the nimblest of sprites as Puck, but the quartet of lovers now look increasingly jokey and insubstantial as characters.

A Month in the Country brought Marguerite Porter as Natalya, with Anthony Dowell youthfully impetuous and irresistible as the tutor, and Karen Paisey enchantingly sincere as Vera. The musical performance was bright in accent, and so was the company interpretation: this summer storm only passed after some brilliant flashes of emotional lightning.

Don Carlos/Paris Opéra

Ronald Crichton

The 'Palais Garnier' is the most dramatically, centrally placed of Western European opera houses, the most unequivocally, unapologetically monumental within and without. The boldness of the architect Garnier's conception has not always been reflected in choice of repertory. Recently, though, the Opéra has begun to come to terms with the historic past inherited from the previous theatre, similar in shape and size of auditorium, but by comparison tucked away in a corner.

Operas by Rossini and Verdi re-worked or specially written for Paris have been revived. Last year brought Meyerbeer's *Robert le diable*. Now, to open the new season, the Opéra has mounted Verdi's *Don Carlos* with the original French text, not heard there, I think, since the run of performances that followed the premiere of 1867.

The production by Marco Arturo Marelli of Zürich has the overriding virtue of continuity and quick changes.

Georges Prêtre conducted. There was little of the grandeur Giulini or Abbado bring to the score, the sombre quality found in other middle-period Verdi like *La forza* or *Boccanegra*, though never so strongly as here. Prêtre patted and scurried the music along, sketching and suggesting rather than firmly outlining, with passages of extra-fine sound where the French players seemed to be delightedly discovering how well Verdi wrote for the orchestra, also others which were ragged or sourly tuned. Speeds were light and fresh in a way that suited the French text. The conductor's approach proved unexpectedly enlivening to the sometimes ponderous auto-da-fé scene.

The same lighter-than-usual touch marked the best of the solo singing. Thomas Allen's Posa was the most assured, in vocal style and physical movement. He made Posa's pivotal role in the drama unusually clear. In this demanding but rewarding house, the voice sounded excellently well. The French tenor Jean Dupouy took the title-role at, it appears, very short notice. One would never have supposed this from the degree of confidence and commitment he brought to the notoriously elusive character. The Elisabeth de Valois was Michèle Lagrange, her timbre warm and appealing, with a touch of quick vibrato, the top soft, the phrasing most delicate. Neither singer has great power. Both have stamina. They blend well. The couple Carlos-Elisabeth, as they should be, were firmly in the foreground.

Alexandrina Miltcheva's comely Eboli had too much difficulty with the language to do herself justice. Alfred Muff, a forceful bass-baritone of whom we shall no doubt hear more, was a rough, gruff King Philip, more Brecht-Weill thug than despotic Habsburg. The Grand Inquisitor, Sergei Koptchak, sang vividly but was treated by the producer like a wizard in a Russian fairy-tale opera.

Marelli is his own set designer, with costumes by Dagmar Niefind. The colouring of Verdi's score is in no way matched by the predominant black, grey and off-white. The whole of the huge stage is used, with a great, funereal curtain rising, falling, dividing; looping. Some of the arrangements are striking, some silly, like the Fontainbleau woodcutters instead of felling trees pulling ropes to hoist the curtain, or the symbolic collapse to the floor after the murder of Posa. In that position the curtain greatly encumbers the insurrection scene. The Inquisitor, in order to be visible, has to be shot up from a trap, on a plinth. The auto-da-fé, by contrast, is adroitly managed, though the flames are scarcely hinted at.

For all the ups and downs this is a brave shot at presenting one of the grandest of grand operas in modern terms.

Suzanne Murphy

Lucia di Lammermoor

Rodney Milnes

The present management of Welsh National Opera has long had a knack of matching opera and production team, both positively and provocatively (for instance, banding war-horses like *Carmen* and *Rigoletto* over to Lucian Pintilie). The marriage of Donizetti's *Lucia* and William Gaskill seemed in advance a curious notion, and remains so after the results were unveiled in Cardiff, at the New Theatre, on Saturday. Would he respond easily to a score so tightly circumscribed by form, one wondered, though the element of romantic-agony Gothick would surely have sparked off lively reactions.

In the event, Mr Gaskill did very little.

The most positive—if that is the right adjective—statement came from Ultz's decor. The permanent set was a grey, rock-strewn ramp in three sections stretching upstage to a grey brick wall; the stage picture was varied by sections of more grey wall sliding across. Subfuse costumes ranged from Victorian to present-day Scottish: Arturo looked like Edward VII as Prince of Wales, Enrico was dressed as for this year's Caledonian Ball, and the male chorus were John Buchan ghillies — one half expected them to exit in hot pursuit of Robert Donat and Madeleine Carroll rather than Scott's Edgardo.

The ladies looked more traditional: Lucia was revealed in the hair-do and position of Millais's Blind Girl—a lovely and not inapposite image. The contrast between interior and exterior scenes, which is important, was ignored, and there is a limit to how much grey one can take, especially in harness with such colourful music. The chorus groupings, though, were nicely devised, and quite beautifully lit by Andy Phillips.

The music, too, was monochrome. There is a *morbidezza*, an over-riding, almost feminine melancholy to Donizetti's musical language that was not well served by Julian Smith's over-hearty conducting. No half-tones, yielding contours, but forceful, strident projection that together with some over-driven tempos made the score sound like early Verdi, which it should not.

The production was well cast. Suzanne Murphy is no tinkly nightingale of a Lucia. Her lyric soprano is sumptuous of tone yet ideally fluent in coloratura — I know of few sopranos today who can sing a fast chromatic scale with such devastating accuracy. She conquered a tendency towards flat-orientated pitch in time for the Mad Scene, which went spectacularly well. As we know from her *Puritani*, Miss Murphy is an expert in stage madness, but here she played her trump cards a little too soon; if Lucia is as dotty as a computer print-out the first time you see her, then there is nowhere for her to go. Still, this was a big, full-blooded performance.

Dennis O'Neill, an alienated Edgardo (all leather and designer stubble), sounds so wonderfully, so authentically Italianate that it seems ungrateful to ask for a little more light and shade in his singing, especially in Donizetti. The first verse of his final cabaletta was *fortissimo*, the second a hushed *fil di voce*: there is room for so much else in between. Mark Holland (Enrico) also delivered firm tone at an unsparing level, and fell back too readily on standard operatic gesture. Peter Bronder (Arturo) and John Harris (Normanno) handled their assignments with spirit, but William Mackie was a curiously neurotic Raimondo rather than an oasis of bass sanity.

Mr Gaskill's previous production for WNO, *La Bohème*, was a promising, unconventional staging that could have developed interestingly (in the event it wasn't allowed to); the same might be said of this *Lucia*, but I think it has further to go.

Don Giovanni/Glyndebourne

Rodney Milnes

As the years go by, Glyndebourne Touring Opera increasingly attains standards that start to challenge those of the festival; indeed, in two of this year's operas important roles have been unarguably better cast than they were in the summer. But at the opening of the touring *Don Giovanni* last Friday, one did notice that the London Philharmonic Orchestra was not in the pit. At first the Bournemouth Sinfonietta's rough and ready playing reminded one that they have been going through a sticky patch, but as the evening progressed, so their response to Martin Isepp's conducting grew steadily more alert, and the second act, certainly, was admirably rhythmic and vigorous. I like the way Mr Isepp founds his Mozart sound on a good, solid bass line.

There were four excellent vocal performances. For incisiveness of tone, clarity of projection and liveliness of stage manner, Patrick Donnelly (Masetto) put his festival colleague to shame: this was an outstandingly successful impersonation. Kim Begley's tenor grows ever more liquidly beautiful and expressive: his Ottavio was strongly, sensitively sung and he embellished both arias to stirring effect. As Elvira, Faith Elliott combined full tone, precise intonation and easy agility to a quite remarkable degree. And Peter Rose (Commendatore) has a bass astoundingly rich and resonant for so young an artist. All four could have slipped into the festival cast without anyone noticing.

Robert Hayward sang the title role. Although his baritone hasn't quite "set" yet—a little fuzzy at the edges—it is most intelligently used (he brought a good range of tone colour to the recitatives) and his account of the Champagne aria revealed a soundly based technique. His acting suggested close study of Thomas Allen in this role (*ein guter Meister*). Plainly a singer to watch. Elizabeth Collier's attractive presence made Anna's fate all the more poignant, but she needed (and just about supplied) a good deal of willpower to get through both arias. Louise Winter (Zerlina) also has a positive stage presence, going hand in hand with almost too positive vocal delivery: she could with advantage relax and stop worrying the music. Roger Bryson was a nicely *sardonic*, surly Leporello, though in rather rusty voice.

Patrick Young was in charge of the production, and remained on the whole faithful to it, though doing more than merely supplying a carbon copy. I must say I prefer Peter Hall's direction of "Batti, batti" and "La ci darem." None of the cast were helped by the super-titles, which regularly delivered their laugh lines (duly laughed at) before they did. And the mis-translation of Leporello's mention of *I due litiganti* was the sort of elementary schoolboy howler that one does not expect to see at Glyndebourne.

Calling/Scarborough

Martin Hoyle

Paul Copley is a young actor of sense, sensibility and sensitivity. Deploying these qualities in his capacity as playwright leads to the danger of making everyone a little too nice. A warm heart does more good beneath the rough bristles of everyday life than on the sleeve where the writer currently sports it.

The Stephen Joseph Theatre in the Round is mounting his new play. The calling of the title could refer to the heroine's vocation — the school-teaching at which she excels — or the caller's patter in the bingo arcade where she takes refuge after sudden flight from a stable background. Or the call of something undefined, perhaps her childhood, a pattern or a purpose, that leads her to hide out in the Yorkshire seaside on the pretext of finding her vanished father.

The play's real theme might be the three year itch. Samantha ultimately returns to her successful husband and the prospect of children after realising that she has been running from her job, from her marriage, from responsibility. In the process the pieces of her life fall into place, and she has a cathartic effect on at least one of the amusement arcade's workers. This is Ralph, the ladykiller, all sideburns, Cuban heels and black leather, whose illiteracy she tries to cure with children's reading primers, and whom she forces to face up to his own abandoned responsibilities—a wife and two bright children who, he wistfully notes, can read.

The play's even-paced dialogue would go well on radio. Robert Herford's direction decks what is essentially a talk piece with such notable theatrical touches as lights flashing from above, below, and around for the bingo *parlour*, as teddy bears in plastic bags are lowered from on high (designer: Glen Willatoy).

As yet the play lacks real conflict, despite an attempted rape, a malaprop-uttering landlady and offstage revelations about the heroine's parentage. An attractive cast serves the piece well. Serena Evans, pudgy-faced and sad-eyed, looks like a real person rather than an actress and makes the questing Samantha likeable when she could easily be tiresome. Lennox Greaves, looking more than ever like a young Dirk Bogarde, is the rakish, inadequate Ralph, an extraordinary change from the innocent he created in the original *Chorus of Disapproval*; and Edward Peel, as the cigar-puffing plutocrat of the escapist arcade, unnervingly recalls the Corporation employee who managed Bristol's main concert hall in the days of my youth—which is vaguely suitable.

The play marks time; thoughtful, calm and non-committal. With a good dose of bile Mr Copley could be a very interesting writer.

Wayne Eagling indisposed

Wayne Eagling will be unable to perform at the Royal Opera House during October and November as he is still recovering from injury.

Stephen Jefferies, who took over from him in Mayerling on October 14, will take over his role in *The Sleeping Beauty* on November 1: the replacement for *Mayerling* on November 7 will be announced later.

Mr Eagling continues to work on the choreography for his new ballet, which receives its world premiere on December 2.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

October 17-23

Music

LONDON

London Philharmonic conducted by James Loughran with Luigi Alberto Bianchi, violin. Arnold, Beethoven and Dvořák. Royal Festival Hall (Tue). (928 3191).

English Chamber Orchestra conducted by Raymond Leppart and Malcolm Arnold with Julian Bream, guitar and Richard Adeney, flute. Rossini, Rodrigo, Arnold. Queen Elizabeth Hall (Tue). (928 3191).

BBC Symphony Orchestra conducted by John Pritchard with Hanna Schwarz, mezzo-soprano. Berlioz, Wagner and Tchaikovsky. Royal Festival Hall (Wed).

Philharmonia Orchestra conducted by Esa-Pekka Salonen with Electric Phoenix and John Lill, piano. Berio, Grieg and Debussy. Royal Festival Hall (Thur).

London Sinfonietta conducted by Simon Rattle with Anthony Rolfe Johnson, tenor, and Michael Thompson, horn. Tippett and Britten. Queen Elizabeth Hall (Thur).

PARIS

Orchestre de Paris conducted by Myung-Whun Chung. Yo Yo Ma, cello: Haydn, Dutilleux, Mendelssohn (Wed, Thur). Salle Pleyel (4561 0630).

Aldo Ciccolini, piano. (Tue). Salle Gaveau (4563 2030).

Ensemble Orchestral de Paris conducted by Armin Jordan, Philip Bride, violin. Mozart, Haydn (Tue). Salle Pleyel (4561 0630).

Trio Couperin: Bach, F. Couperin, Handel, J. Kuhnau (Tue). Saint-Severin Church (4277 1883).

Orchestre National d'Ile de France conducted by Pierre Dervaux, Alain Marion, soloist: Dukas, Mozart, Bizet, Ravel (Wed). Salle Gaveau (4563 2030).

BRUSSELS

Palais des Beaux Arts (512 50 45): Academy of St. Martin-in-the-Fields, conductor and violin Kenneth Sillito – Handel, Shostakovitch, Vivaldi (Tue); Royal Opera Symphony Orchestra conducted by Sir John Pritchard with London Voices, Terry Edwards, Yvonne Kenny, Diana Montague, Eberhard Buchner and John Tomlinson – Handel's Messiah (Thur).

ITALY

Rome: Teatro Olimpico: (Piazza Gentile da Fabriano) Orpheus Chamber Orchestra with the pianist Richard Goode playing Bach, Mozart and Haydn (Tue). (360 1752).

NETHERLANDS

Amsterdam, Concertgebouw. The National Philharmonic conducted by Martin Kamminga, with vocalists: Bruckner, Kodaly (Mon). Hartmut Haenchen conducting the Netherlands Philharmonic, with Jutta Zoff, harp, and Irena Grafenauer, flute: Mozart, Mahler (Tue). Riccardo Chailly conducting the Concertgebouw Orchestra, with Theo Bruins, piano, John Shirley-Quirk, declamation, and the Concertgebouw Male Voice Choir under Arthur Oldham: Zemlinsky, Schönberg (Thur). Recital Hall: Dutch chamber music performed by the Mendelssohn Trio (Mon). Bach recital by the Amsterdam Bach Soloists (Tue). Piano recital by Daria Telizyn (Wed). The Orlando *Quartet*: Haydn, Schnittke, Schubert (Thur). (71 83 45).

Rotterdam, De Doelen. The Osaka Philharmonic conducted by Takashi Asahina, with Tomotada Soh, violin: Toyama, Mendelssohn, Brahms (Tue). Recital Hall: Weber anniversary concert by Mieke van der Sluis, soprano. Eric Hoeprich, clarinet, and Stanley Hoogland, fortepiano: Weber, Schubert (Mon). (414 29 11).

Utrecht, Vredenburg. Hartmut Haenchen conducting the Netherlands Philharmonic, with Maria Graf, harp, and Irena Grafenauer, flute: Mozart, Mahler (Wed). Recital Hall: Haaken Austbö, piano: Liszt, Scriabin, Messiaen (Wed). (31 45 44).

The Hague, Diligentia. The Hague Philharmonic Chamber Ensemble: Balakirev, Dussek, Albrechtsberger, Stallaert, Lutoslavski (Wed). (65 18 51).

Nijmegen, Vereeniging. Ricardo Chailly conducting the Concertgebouw Orchestra, with Jaap van Zweden, violin: Rossini, Paganini, Dvořák (Mon). Recital Hall: Lieder recital by Frans Fiselier, baritone, accompanied by Han Louis Meyer (Wed). (22 11 00).

VIENNA

Siegfried Jerusalem, lieder, Siegfried Mauser, piano. Strauss, Huessl, Mahler. Konzerthaus Mozart Saal. (Tue).

Lower Austria Tonkunstler Orchestra conducted by Alfred Eschwe with Helmut Demmer, trumpet, Christian Altenburger, violin. Fuerst, Haydn, Vogel, Uhl, Schubert. Konzerthaus. (Wed).

Haydn-Sinfonietta conducted by Manfred Huss. Haydn, Mozart, Stravinsky. Musikverein in Brahms Saal. (Thur).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Klaus Tennstedt conducting, Alicia de Larrocha piano. Mozart, Bruckner (Tue); Klaus Tennstedt conducting. All-Mahler programme (Thur). Lincoln Center (874 2424).

Kaufmann Hall: Chamber Music at the Y. Mozart, Debussy, Silverman, Schubert (Tue, Wed). 1395 Lexington Av (831 8603).

Basically Bach Festival: The eighth festival covers seven events over the month, centred round performances of Musica Sacra, directed by Richard Westenburg, and ending with a concert of Bach and Handel at Avery Fisher Hall Oct 22nd. Central Presbyterian Church (64th & Park). (873 9546).

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting, Alexander Toradze piano. Walker, Rachmaninov, Dvořák (Tue); Rafael Frühbeck de Burgos conducting. Narciso Yepes guitar. R. Strauss, Rodrigo, Falla (Thur). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestral Hall): Lorin Mazel conducting. Hindemith, Mahler (Thur). (435 8111).

Vienna Chamber Ensemble: Weber, Mozart, U-Port Kani Hoken Hall, Gotanda (Tue). (723 2356).

Vienna Symphoniker, conducted by Christopher Eschenbach. Weber, Mozart, Brahms. Tokyo Bunka Kaikan (Tue). (403 1290).

Munich Philharmoniker, conducted by Sergiu Celibidache. Rossini, Richard Strauss, Brahms. Suntory Hall, Akasaka. (Wed). (980 6060; 237 9990).

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Monday October 20 1986

Crucial vote in the City

THE FUTURE position of London in the international capital market will to e significant degree be decided by the constitutional reforms now being considered by members of the London Stock Exchange. This is the view of Sir Nicholas Goodison, the Stock Exchange's chairman, who believes that, of all the major issuses which have confronted the market in recent years, this is the most important.

Last year, Stock Exchange members failed by a narrow margin to approve what looked —at least superficially—like a similar set of proposals. Why is reform so important and why should members vote differently this time?

The proposals call for the most sweeping changes in the character and governance of the Exchange. If approved, it will cease to be e mutual undertaking and will register instead as a limited company. Control will pass from the hands of individual members into those of member firms, and the principle of unlimited liability will no longer apply. The governing body will be streamlined, and drawn from a much broader constituency, while its euthority will be delegated to committees of practitioners which will have a great deal of eutonomy.

Voting authority

Changes of this sort have been desirable for some time, given that the Exchange is moving into e much more competitive world and can no longer operate as e gentlemen's club. But what has made the reforms essential is thet these were the only conditions on which the big international securities firms would agree to co-operate with the established Exchange to develop the central market place in London. Otherwise, Isro (the International Securities Regulatory Organisation) would have set up a separate market of its own for trading in international equities and bonds.

Isro's members would not have committed themselves to an exchange in which the voting authority lay with more than 5,000 individuals and which was run by an unwieldy council of 50 or more representatives of the established order. From this, everything else follows.

The competitive threat from Isro features prominently in the Stock Exchange's arguments in favour of reform. About 70 per cent of the Exchange's existing trade in equities is concentrated in the shares of some 60 top companies and e good part of this business could be creamed off by a rival exchange. The marketability of what remained would suffer as firms switched some of their risk capital to the new market. Sir Nicholas claims that each firm would probably have to join both exchanges in order to do the best job for its clients. There would be significant extra costs in terms of trading and regulatory systems.

This threat is much clearer than it was in 1985, when members last voted on reform. Another important difference is that the membership has grown substantially over the period, from 4,500 to roughly 5,400. It seems likely that many of the newcomers may favour change.

Industry interests

To compensate for their loss of voting rights, members are being offered a sweetener in the shape of e £10,000 payment to be received et the age of 60 or, if later, on retirement. It is arguable whether they should get anything et all, given thet their claims on the assets of the Exchange would only erise in the event of it being wound up. The fact that it is being offered, at whet for a period will be a significant cost to the enterprise, shows how anxious the authorities are to win the vote.

While it seems clear that the interests of the eecurities industry will be best served by the development of the central market, the same does not necessarily epply to its customers. Might not listed companies and investors benefit from the kind of vigorous competition which takes place between rival stock exchanges in the US?

Probably not. London may not be big enough to support more than one efficient capital market. There will be intense competition among market makers in London's trading system, and the new regulatory hodies will have the euthority to stamp on would-be cartels. And if the major listed companies and investors are not provided with a decent service, there will be increasing competition from other financial centres. These reforms should help to make London a more powerful player in the world's capital markets.

Overkill in export control

EVER SINCE the US began cracking down some five years ago on illegal exports of militarily-useful technology to the Soviet bloc, businessmen and scientists on both sides of the Atlantic have complained that legitimate trade in high technology has been unnecessarily stifled. Should Europe's answer be to stop buying American?

A recent survey conducted by the commercial section of the US consulate in Frankfurt tends to confirm a widely-held belief that American export controls exaggerate the strategic threat and do more damage to US companies in Europe than to the Soviet military machine.

It reveals that some European-based electronics companies are searching for other sources of supply, notably Japan. Other companies in the past have reacted even more strongly, suggesting that the export controls are e surreptitious way of reinforcing US dominance in civilian as well as military technology. They have concluded that the stringency of American licensing is grounds for building e technically self-sufficient European electronics industry.

Cheapest sources

No convincing evidence has been produced to show that American export controls do in practice discriminate against Europeans, nor that honest companies have suffered more than irritating interference and (sometimes expensive) delays. Whatever justifications there may be for an independent third force in world technology trade, the administrative burden of buying American is certainly not one of them. Just because the Pentagon sees advanced technology as e strategic issue does not mean that European industry should head for the bunker.

Like it or not, companies are operating in e world market and are compelled to buy their components from the cheapest and most reliable sources: the cost of duplicating in Europe low-price Japanese chip manufacture or sophisticated US systems would be unbearably high and absurdly wasteful of resources. Their own commercial alliances outside Western Europe show that companies recognise the fact. Britain's ICL has links with Fujitsu, and American manufacturers like Honeywell have taken similar refuge with the Japanese to meet the worldwide challenge of International Business Machines.

Yet so long as the Pentagon appears to be dictating commercial procedure to the Department of Commerce, the political cost of American export controls will be high. For example, the British and US governments have been arguing for over a year whether holders of American distribution licences in Britain should be forced to submit to inspection by US officials as required by American law. The extra-territorial application of that law has been a running sore in transatlantic commercial relations.

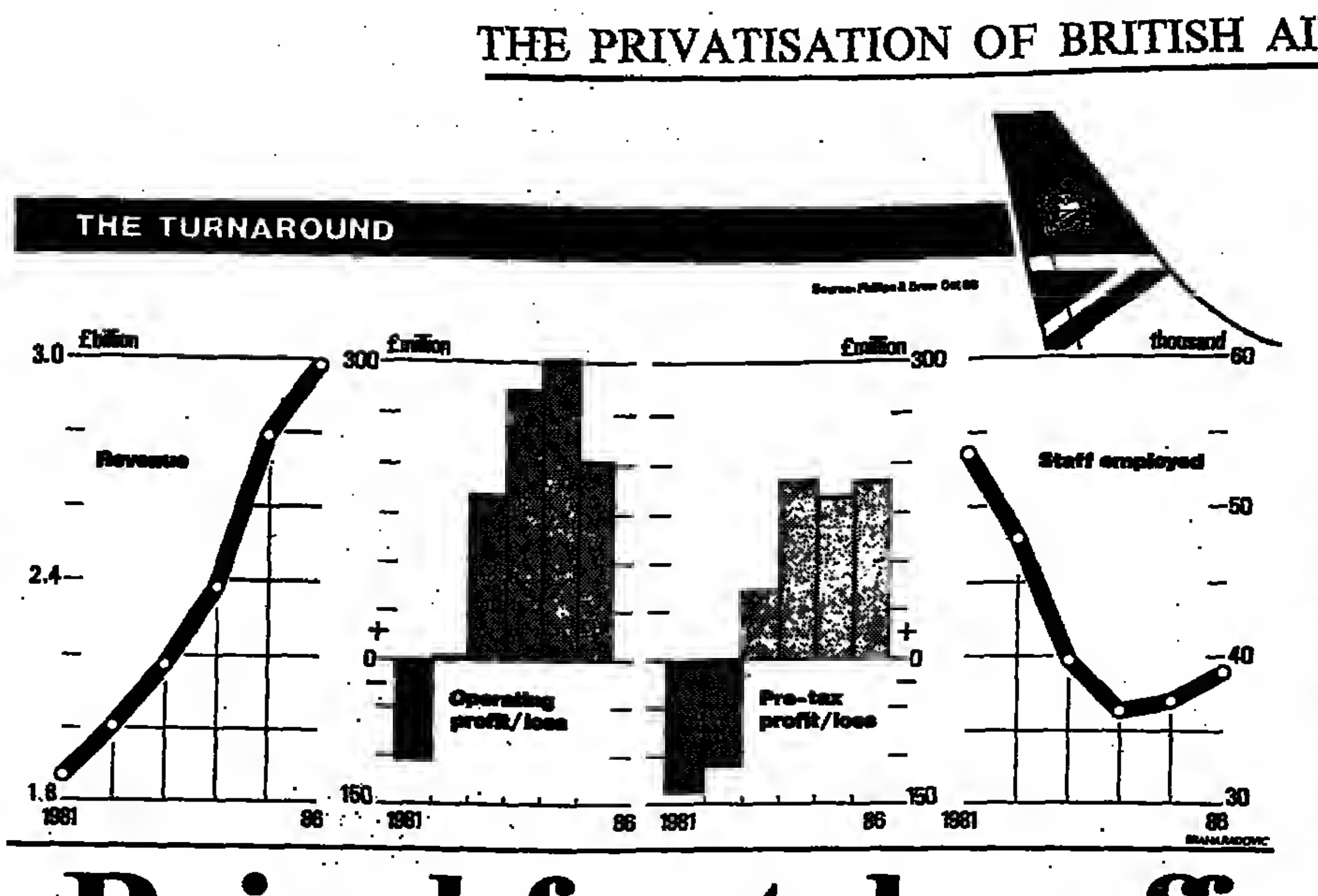
Better balance

The huge embargo list of so called "dual use" items operated by the Nato allies and Japan is still seen by frustrated manufacturers as the product of American strategic obsessions rather than as a sensible restraint on high-technology trade with the Communist bloc. Efforts have been made to refine that list (Apple computers were taken off last year) so that yesterday's hardware is set free as tomorrow's technology is added.

No administrative system, however rigorous, will be proof against people who make money by leaking sensitive technology to the Soviet Union, just as no economic embargo is totally enforceable and no law will deter every potential traitor. It is a question of striking a better balance between the needs of honest traders and the opportunities for dishonest ones.

A still more discriminating approach by Nato's co-ordinating committee (CoCom) would go e long way to relieving the unnecessary burden of US controls on the free world's electronics manufacturers and traders. At the same time the Pentagon should trust allied governments to track down and punish those who smuggle technology to the East. Once American technology leaves US shores, it becomes a collective responsibility. The present system destroys business confidence and invites illogical responses that would only stifle innovation still further.

THE PRIVATISATION OF BRITISH AIRWAYS



Poised for take-off

AFTER months of frustration, including one last-minute postponement earlier this year, British Airways is at last taxi-ing towards privatisation. Tomorrow, the Government and the airline are due jointly to announce the details.

The prospectus is expected to be published around the New Year, ready for a share sale in late January or early February. The Government will sell all its BA stock, retaining only one special Golden Share to prevent the airline from falling into foreign hands.

It is the moment that Lord King has been working towards since he was appointed chairman in early 1981. He came in at e bad time. In an economic recession, BA was almost bankrupt, top-heavy with staff and low on morale. The quality of service to customers was abysmal; and many senior managers seemed unable to recognise the problems, let alone put them right.

By any commercial standards, the turnround since 1981 has been remarkable. Over the past four financial years, total operating surpluses have amounted to £943m and total pre-tax profits to £609m. Capital debt has been reduced from £1,053m to £379m, and capital and reserves have gone from a deficit of £195m to a surplus of £480m.

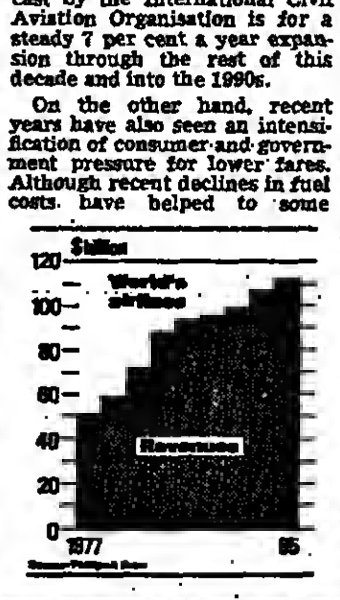
This has been achieved by substantial retrenchment and an almost complete reversal of management attitudes. The often arrogant approach of BA in the 1970s—that only the airline knew what was good for the passengers—has given way to recognition that the passengers are the reason for its business, and an integral part of the staff's daily lives.

The changes have not been achieved without pain. Many senior staff have left, some hurriedly, and new top management recruited, including the current chief executive, Mr Colin Marshall, and the finance director, Mr Gordon Dunlop. Staff of 56,000 have been cut back to 36,000, although that figure has subsequently crept back to 39,000; some routes have been axed; old aircraft phased out; properties and equipment sold; and new management and staff motivation plans implemented to inculcate new attitudes.

Passengers are now ready to admit that BA has improved; indeed the airline has topped for two years in succession Executive Travel Magazine's reader poll of airline service. A recent and sweeping reorganisation of marketing and operations, however, is acknowledgment that more still needs to be done.

The continued recovery of BA has been helped to some extent by the general recovery from the world recession of the early 1980s that has already lifted total world scheduled air travel from 748m passengers in 1980 to 892m last year. The overall forecast by the International Civil Aviation Organisation is for a steady 7 per cent a year expansion through the rest of this decade and into the 1990s.

On the other hand, recent years have also seen an intensification of consumer and government pressure for lower fares. Although recent declines in fuel costs have helped to some extent, they have been less significant than many outside the industry imagine. This is largely because in many parts of the world local monopoly suppliera have either refused, or been slow, to pass on to the airlines the benefits of crude oil price reductions. BA has suffered this problem at some destinations in the Middle East, India and South-East Asia.



This summer, the airline was also hit by the downturn in US traffic to Europe through fears of increased terrorism in the wake of the US bombing of Libya.

Later this summer, BA reported that things were getting better, and that traffic, especially on the North Atlantic, was back ebove that of the same period last year. Just how far the summer problems will affect the current year's profit and loss account is uncertain. BA depends on its summer profits to carry it through the bleaker winter months, when it does little more than break even (as it did last winter). Short of a substantial traffic boost this autumn and through the coming winter, pre-tax profits for 1986-87 as e whole probably will be lower than last year's £183m—one City forecast is £125m, with perhaps an improvement to £200m in 1987-88.

Another problem, now resolved, was the anti-trust suit brought against BA and other North Atlantic airlines in the US by the liquidator of Laker Airways, claiming damages for alleged conspiracy to drive Laker out of business. Although consistently denied by the airlines, including BA, that suit was ultimately settled out of court, with the airlines collectively paying out $68m.

There have also been difficulties this year in negotiating et government level a renewal of part of the Bermuda Two Anglo-US bilateral air agreement, which governs the number of seets airlines can offer on the North Atlantic. Called Annex Two, this pact expired in July, and it had been feared that without e new agreement there would be serious seat dumping by US airlines on the route. This, together with a UK desire for anti-trust immunity for British airlines on the North Atlantic, led to the postponement of BA's privatisation earlier this year.

A three-year Annex Two pact has now been signed, thus shelving difficult issues for at least that period.

It is also a fact that although BA must face "dual designation," the introduction of more UK independent and foreign airlines on its international air routes, many UK independents believe the Government will continue to regard BA as Britain's favoured airline when civil servants come to discuss international route rights and other civil eviation matters.

Other problems do lie ahead, such as the biggest re-equipment programme in BA's history, costing as much as £5bn between now and the end of this decade. Part of this has been settled by the decision to buy 16 Boeing 747-400 Jumbo jets, with an option on another 12, worth over $4bn. BA has still to decide on new short-to-medium range jets, such as either the Airbus A-320 or the later Boeing 7J7 prop-fan, set for delivery in 1992.

In summary, BA is probably now as ready as it will ever be for privatisation. Lord King is confident of success, despite the volatility of world air transport — rising costs, intensifying competition, pressures for cheaper fares, and international political difficulties.

The runway may now be cleared for take-off, but no-one et the top in BA expects e smooth flight into the rest of this century.

Michael Donne

Figuring out a supersonic sales pitch

LATE THIS morning a British Airways Concorde will circle in the air above the fund managers of Edinburgh, preparatory to booming down the North Sea corridor for champagne and strawberries over the Bay of Biscay.

The passengers on this trip will be representatives of the financial Press, aptly pressurised into their supersonic cabin for an in-flight briefing from BA's management and financial advisers. The hard selling of BA will have begun at high eltitude, and with a sonic bang.

When the travellers return from lunch to the concrete wasteland of Marsham Street, the official Press conference at the Department of Transport can be expected to pass off in high good humour.

Past doubts as to the airline's marketability have been swept aside: the Laker lawsuits have been tidied up, the next generation of aircraft financed off the balance sheet, and BA's vital North Atlantic market protected by a renegotiation of the Bermuda anti-dumping agreement. Tough questions about the price at which the shares are likely to be sold will be deflected until the publication of BA's prospectus, perhaps three months ahead.

Beneath this slick marketing exercise, designed to establish by association that BA is a premium business of its kind, the Government is, as ever, simply trying to sell an asset at the fullest price that will go down well in the City.

To draw in the stags, who may be sated or frustrated by the enormous British Gas issue, BA will have to be put forward es a bargain. The problem is that UK investors know at first hand the quality of BA's service—an awareness that remains one of BA's more ambiguous assets—but they have no relevant yardstick in their portfolio by which to measure its value.

The selling might have been much easier had it been possible to float BA two or more years ago. The recovery programme which Lord King initiated in 1981 had still one really impressive year left in it before the climb started to level out. Productivity gains from shedding one-third of the workforce were still coming through; the squeeze on working capital was still pulling cash into the balance sheet faster than BA needed to spend it on new aircraft; and tourist traffic had yet to suffer the impact of Tripoli and Chernobyl. It will be harder to sell BA's recovery story in a year when profits have dipped, perhaps quite sharply.

Deprived of this basic sales pitch—crudely: sit back for a couple of years and watch it soar—the equity salesmen will thus be driven back to more difficult ground. Their first task is to din into City consciousness a suitable picture of the world airline industry and BA's rating within it.

As luck would have it, the industry background has turned more rosy, with the collapsing oil price, than anyone had a right to expect. Quite apart from the major direct benefit which will eventually come through to airline profits — at the old prices, fuel was between 20 and 30 per cent of costs—the stimulus to economic growth in oil-importing countries should also lift the rate of traffic growth. Since an airline is the classic example of a business with enormous fixed costs, once you are operating above break even, the marginal ticket sale is almost pure profit.

So airlines in general should be e more attractive investment proposition than they were.

Working out the place of BA within this framework is no simple matter. There are a few well-aired questions that the airline has still to deal with, from ageing Jumbo jets with cracked fuselages to the questionable popularity of its glossy new terminal building at Heathrow.

More positively, BA has inherited from the early days of international flight one of the strongest route networks.

Since the dark days of the early 1980s, BA has achieved an internationally respectable level of productivity, at comparatively low unit wage costs, and established itself as a leader in the computerised art of selling its seats at the optimum mix of prices — the key to maximising revenue per passenger mile. The balance sheet has been rebuilt, and BA's ability to finance its business no longer appears questionable.

What will make BA a nightmare issue to price, even so, is that no two airlines follow the same accounting conventions. Most critically, they differ in their treatment of aircraft leases and depreciation, making straightforward comparison of their profits impossible, thus distorting their relative stock market ratings.

If the earnings of BA and its competitors are brought into line—by putting them on a common accounting basis as will in practice be required of BA's financial advisers—it seems likely that BA could be pitched at an attractive discount to its "natural" price-earnings multiple and still bring in something not too far short of the £1bn that has been casually mentioned in the past.

But it is early days: the City is not yet buzzing with learned discussion of breakeven load factors, revenue passenger distances, still less with operating lease accountancy. Maybe it will all come down to a free ride on Concorde—or a few points of dividend yield—after all.

Jeremy Stone

Men and Matters

Frostbite at Renold

"That," says Peter Frost, reflecting on the boardroom shake-up at Renold, the Manchester-based engineering group, "is the essential role of non-executive directors. They are the only independent people in a position to form e judgment about the executives and to take action."

Frost, 69, and three other non-executive directors came to the view last week that Renold's lack of profitability in the first half of the year called for changes.

Out went managing director Nigel Blakstad, to be followed by the resignation in protest of non-executive chairman Sir Campbell Adamson.

Frost has taken over as chairman with executive powers at least until a successor is found for Blakstad.

"Non-executives," he says, "are too often too reluctant to press for changes when they think things are going wrong." This is the second time in his career that he has forced the issue. Three years ago, as chairman of Ward and Goldstone, an electrical wire and accessories manufacturer, he secured the resignation of managing director Michael Goldstone, a member of the founding family, after differences over plant closures.

Frost remains non-executive chairman of that company, now renamed Vulex Group. "I prefer the non-executive role," he says. "It leaves me time to do other things that I want to do."

A Yorkshireman, Frost started as an office boy at the age of 15 with Thos. W. Ward, an industrial holding company, and worked his way through the ranks to become chairman.

In 1981 he made a bitterly contested bid for Tunnel Holdings, a rival cement manufacturer, where he also had a non-executive seat on the board. The fracas ended in both companies being taken over by RTZ. Frost resigned shortly afterwards; Tunnel's chairman, Derek Birkin, is now RTZ's chief executive.

"Old Chinese proverb — it says "Visiting British students should be seen and not heard"

Glass case

Tucked in with the half year figures from Rockware, Britain's biggest independent glass bottle maker, came the terse statement of a new non-executive board appointment: Henry Poole, of stockbrokers Laing & Cruickshank, the doyen of City analysts covering the packaging sector to which Rockware belongs.

Might this not involve a conflict of interest? "It's unnecessarily coy to argue that," Poole says. "A directorship in a small company out on one limb of the packaging industry won't conflict with the way I do the rest of my business."

Although his firm has a 15 per cent share of the Stock Exchange's turnover in paper and packaging stocks, Poole argues, his research is selective and does not include detailed investment recommendations on the glass industry.

His massive 366-page UK Paper and Packaging Directory, a standard reference source for the industry, thudded on to clients' desks a week or two ago. Restructuring is needed in the glass industry, it warns, though, "it would be wrong to be too pessimistic about the future trend of glass container volume."

Sir Peter Parker, Rockware's ebullient chairman, is enthusiastic. "The word analysts often conjures up a slit-eyed recluse with a Balliol accent," he says. "But Henry has been out and about in the industry, and he's e businessman, not just e commentator. It's e good thing for the barriers to come down."

For his part, Poole says, "I've had a lot out of the industry over the years, and I'm keen to put something back in." One recipient could be Parker himself, who last year bet Poole that one of the company's plants would not close within two years. He is still on course to collect a fiver.

New partners

What do a white woman and e black man and a former rocket scientist have in common? No they are not members of the next US space shuttle crew. They have just been appointed partners of Goldman Sachs, which is generally regarded as the most prestigious of New York's investment banks.

Jeanette Loeb, aged 34, has made history by becoming the first woman to join the Goldman Sachs partnership, and Garland E. Wood, aged 42, is the first black to be appointed to a similar position. Fischer Black, a 48-year-old former professor at Massachusetts Institute of Technology, is the ex-rocket scientist who has also been made a partner.

Becoming a partner of Goldman Sachs is one of the biggest honours a Wall Street high flier can hope to achieve and the list of new partners—announced once every two years—is vetted more closely than the seating plan for most royal occasions.

Traditionally, Goldman Sachs has appointed around a dozen new partners every two years but this year the firm has announced e record number of 37 new faces. The two youngest new boys are Thomas Pura and Paul Jacobson. Both are aged 32 and are co-heads of US Government Securities Trading. The average age of the new partners is 38 and, although Goldman Sachs refuses to say how much they earn, the public relations man tells me that it is safe to assume they are "comfortably well-off."

Speech therapy

John Elliott, chairman of Elders IXL and new owner of that most British of brewers, Courage, has a secret inspiration. When the commercial going gets tough, he listens to tape recordings of Winston Churchill's speeches.

As he drives around Melbourne in his Mercedes, the voice coming from the tapedeck is likely to be that of Churchill. "I carry tapes of Churchill in my car and whenever I'm feeling depressed about something, I put him on," says Elliott. "By the time I get out of the car I'm usually fine. After all, he's the person who saved the Western world . . ."

But the late British prime minister played no part, it seems, in the A$1.7bn battle for control of BHP earlier this year. "It was fairly clear that we were in a no-lose situation. I didn't need Winston," Elliott confirmed at e Melbourne function to launch a biography of himself.

He claims not to have read it —saying that at 45, he's a little too young to need a Boswell.

Observer

Foreign Affairs

Nato cannot survive another triumph

By Ian Davidson

WHEN IT comes right down to it, Reagan and Gorbachev both seem to pass a very similar verdict on their meeting at Reykjavik. It was nearly a triumph; or it produced real progress which was only prevented from being a total triumph by the refusal of the other fellow to go the last yard; or it was a good foundation for further negotiations: something like that.

Yet everybody knows it was a failure. The question which may be worrying some European governments, and ought to be worrying some Americans, is whether the Atlantic alliance can survive many triumphs like the one we almost had in Iceland.

It is easy to see why the two leaders have done their best to accentuate the positive. Reagan had already satisfied the right-wing advocates of Star Wars; all that was left to do was to reassure the middle-of-the-road supporters of arms control that he was rooting for them too. Conversely, Gorbachev could hold out the hope of a spectacular compromise with the US on the basis of parity, while reassuring his conservative critics that he had not let Reagan get away with Star Wars.

Now, at one level, the rest of the world should be impressed and grateful for what was nearly achieved at Reykjavik, and may yet be achieved at some future date. Richard Nixon and Henry Kissinger set the benchmarks for arms control in the 1970s, yet they did not manage to negotiate anything much better than a simple freeze; then along came Ronald Reagan, with a known ambivalence about arms control, and in one weekend reaches agreement on a 50 per cent cut in all long-range strategic nuclear weapons, and the elimination of all intermediate-range missiles from Europe. For the first time since World War II, it looked as though the nuclear arms race could be dramatically reversed, in terms that seemed to imply a major and durable improvement in east-west relations.

And durable? Certainly. Ten years; that was the best bit about the potential package from the Hofdi House, far more significant than any weapons numbers.

Reports of the breakdown naturally focussed on the Star Wars stumbling-block, when President Reagan almost agreed to postpone any development of anti-missile defences for 10 years. Gorbachev had originally demanded a delay of at least 15 years; Reagan had replied with a counter offer of 7½; so it looked like a classic case of halve the difference. The real significance of a 10-year period is quite different.

When the two sides first started talking seriously about deep cuts in strategic arsenals, about a year ago, it was obvious that they would have to be talking about a long-lasting agreement, and that the duration of the agreement would be at least as significant as the depth of the cut.

With a freeze, the expiry date is obviously arbitrary, influenced by the *arrière pensée* that eventually weapons may need replacing or modernising: the first Strategic Arms Limitation Treaty (SALT I) was valid for five years; SALT II would have been valid for 6½ years if it had been ratified by the US Senate, but there would have been just as much logic in four years or seven.

A treaty for a deep cut, by contrast, needs an organically logical duration, falling into two parts, the first for carrying out the reductions by stages, the second for the validity of the new, lower weapons levels.

Staged reductions would be necessary, because neither superpower would trust the other to hold a simultaneous great bonfire of all its surplus missiles, warheads, bombers and submarines on Day X; suspicious conservatives on both sides, who attach great importance to equal numbers, would demand a process of salami slicing, followed by intensive analysis of satellite surveillance, to make sure that the missing weapons had not just been spirited away to some new location.

Such a process would be bound to be slow; to reduce by 50 per cent could plausibly take at least five years of anxious checking. Manifestly, such an agreement would not expire as soon as the cuts were achieved; and while the duration of the freeze at the new lower levels would be in some sense arbitrary, it would be odd if this *second stage* were planned to be shorter than the first.

In other words, the logic of *deep cuts points towards* an agreement of, say, 10 years; and the inescapable strategic link between offensive and defensive systems argues that any agreement limiting defensive systems should last at least as long as an agreement limiting offensive weapons.

The 1972 Anti-Ballistic Missile (ABM) Treaty is of unlimited duration; Mr Gorbachev's concession was to agree that the Americans might be allowed to break out of the ABM constraints after a number of years; but it was inconceivable that he would agree to such a break-out, so long as the Soviet Union was bound by treaty limits on its offensive weapons. In other words, a 10-year delay in any Star Wars deployment also defines the duration of an offensive weapons reduction.

The advantage of a deep cut is not that 6,000 nuclear warheads on each side would be somehow safer than 10,000 — both numbers represent a dizzying degree of overkill — but that this type of treaty would confer added benefits, in the shape of predictability, performance monitoring, constraints on force structuring, and almost certainly much more co-operative verification.

If such a treaty is observed by both sides, and if compliance comes, first, to be recognised, then to be expected, a virtuous circle is created which helps to build confidence. Deep cuts imply some degree of shared long-term planning of forces, avoiding nasty surprises like the Soviet build-up of multiple warheads in the 1970s. Cuts clearly require destruction of weapons, which may not be verifiable without some on-site inspection. The cumulative effect of these considerations ought to be to engender more political confidence between the superpowers at least in the field of nuclear weapons.

For the time being, at least, delightful prospect has been blocked by the failure of the Reykjavik meeting, and specifically by President Reagan's determination to accept no significant restriction on the development of his beloved Star Wars anti-missile programme. Your optimist refuses to be discouraged, however, and believes that the two sides got so close to a package deal that Mr Gorbachev is bound to be able to sign an agreement, if not with President Reagan, then with his successor. But your Old Apprehensive is troubled by a few unanswered questions.

Question 1: What credibility is there in the position of *either* of the two leaders? Should we *really* believe that they are seriously proposing what they say they are proposing? Or is Star Wars a wonderful pretext for both sides, which allows them to talk big about nuclear disarmament without any danger of having to sign an agreement?

If a 50 per cent cut in strategic weapons is spectacular, it is just about imaginable; but President Reagan apparently went on to propose getting rid of all the remaining strategic missiles by the end of the 10-year period, just keeping his Star Wars as a little insurance policy; while Mr Gorbachev reverted to his three-stage blueprint for eliminating all nuclear weapons world-wide in the next 15 years.

Who do they think they are fooling? Star Wars can probably never work as advertised, but in any case it will certainly not provide insurance against anything within 10 years. It would be wonderful, no doubt, if we could return to the pre-nuclear age, but Mr Gorbachev must know and President Reagan *should know that it is* quite impossible. So why should anyone take seriously their more modest and more attainable proposals when they apparently mix them up with lisping fairy stories from the nursery?

Question 2: Does the Reykjavik meeting really represent a responsible way to conduct business? The Russians arrived with a bag of new proposals in their pockets, evidently determined to unbalance Mr Reagan and bounce him towards a major package deal. They almost succeeded, and had they done so, we might now be celebrating a magnificent achievement which nevertheless contained a lot of worrying elements.

Some people, like Dr David Owen, believe this kind of high-pressure encounter is a fine test of political leadership and decision-making, and a good way to side-step bureaucratic obstructionism. Maybe; but it is also possible that the two men have bounced themselves into a trap over Star Wars from which there is no escape.

Question 3: What are the implications of the Reykjavik meeting, both procedurally and in substance, for Europe's security? The main issue here is the provisional agreement to remove all America's cruise and Pershing II and all Russia's SS 20 missiles from Europe, while leaving 100 SS 20 warheads in Soviet Asia and 100 similar warheads in the US. On the face of it, this looks wonderful—the Zero Option that the Russians refused in 1981-83. But it highlights two serious issues.

The cruise and Pershing IIs were originally designed to solve two problems: to symbolise America's nuclear commitment to the defence of Europe, and to enable Nato to reduce its dependence on very-short-range nuclear weapons which were *increasingly felt to* be dangerous and uncontrollable. The build-up of Soviet SS 20s was the pretext for this deployment.

The Reykjavik plan would re emphasise questions over extended deterence, and would leave Nato facing a Warsaw Pact with substantial superiority, both in conventional forces and in shorter-range nuclear weapons, like the SS 21s, 22s and 23s which can cover targets in much of Western Europe. In principle, there would be a freeze on these Soviet weapons while the US would have the right to build up matching short-range missiles. But it is rather difficult to imagine circumstances in which Western Europe would be prepared to go through the fire of another publicised deployment of nuclear weapons. So the net effect of the Reykjavik plan looks like a Europe decoupled from America and at the mercy of the Soviet Union.

If Reykjavik turned out to be a high-risk, high-wire stunt, the responsibility lies firmly on Mikhail Gorbachev; Reagan was bounced. It remains possible that the two superpowers will conclude a spectacular arms control deal, presaging a turning point in their bilateral relations. Nevertheless, the provisional out-turn prompts several comments from a European perspective. 1. President Reagan still clings to a Star Wars Dream which will be, at best, a fantastic waste of money, at worst, dangerous and destabilising. 2. For the sake of Star Wars he was prepared to reject a spectacular arms control package with the Soviet Union. 3. Within that package, he virtually accepted a Euro-missile agreement which would have undermined Nato strategy and the defence of Europe. 4. He makes all this up as he goes along. 5. He still thinks he is doing us a favour.

It is quite a catalogue.

Lombard

How to attack Eurosclerosis

By Samuel Brittan

If there is any complecency *left among supporters of* Europe's conservative governments, it should have been shattered by Professor Herbert Giersch's Wincott Memorial Lecture last Thursday.

Both the German and British Governments tend to take refuge in modest economic growth, low inflation (in Britain's case on a very fragile basis) and the fact that very high unemployment has for the moment ceased to get worse—again a precarious achievement.

Prof Giersch shatters this complacency *by pointing to at* least two glaring defects in present policies.

They leave a large pool of outsiders, who are unemployed or in the black economy, who do not enjoy the benefits of such growth as there is. This is just as much an injustice as the poverty lobby believes it to be, even though Prof Giersch's remedies are of an opposite kind.

There is a great waste of potential. Now that some of the most painful adjustments in the older industries have been made, public sector deficits have been curbed and inflationary expectations are low, Europe ought to be able to look forward to another period of 4½ per cent annual growth, instead of the 2½ per cent held out by the present Community Governments.

Prof Giersch's plan for faster growth has three prongs: liberalisation of labour markets, completion of the EEC internal market and liberalisation of trade with the rest of the world.

Its omissions are as important as its inclusions. There is for instance not a single reference to privatisation, which forms so large a part of Thatcherite radicalism. It is not that Prof Giersch *is against* selling state-owned industries; but it fits into his universe only as an adjunct to removing constraints on competition—which will be hardly achieved by making Sir Denis Rooke's British Gas into a private monopoly.

Nor did he mention the *financial markets*, which is where most liberalisation efforts are concentrated in the Big Three European countries. Again this is not because we want to bring back fixed commissions, *credit controls* and the like, but because the blockages to trade in goods and services—and in the hiring of workers—are far more important.

Even when it comes to tax cuts, Prof Giersch's advocacy is very different to that by typical Republicans, Conservatives or Christian Democrats. He does not mind seeing such cuts as a demand boost, but only if undertaken as an adjunct to measures of liberalisation which will simultaneously speed up growth.

A co-ordinated fiscal relaxation in Europe—on which Giersch's own country would have to take the lead—"would allow trade negotiators and de-regulators to de-emphasise the *direct losses of output* and employment expected from removing restrictions and to anticipate a pull of demand to alternative uses which will facilitate the transfer of resources set free by competition."

The ultimate object of Prof Giersch's tax cuts would be to boost investment. But he thinks the best way to encourage investment in new capacity, which would employ labour, is to cut general taxes on income or on payrolls and combine this with wage moderation to boost profit expectations.

Indeed he believes the best financial climate for employment growth would be one of lower taxes, greater profitebility, but also a reasonably high interest rate to reflect the scarcity of capital and to discourage its substitution for labour. Again not a message that Reaganites and Tories will like.

Prof Giersch also emphasises the need for regionally differentiated pay scales reflecting *local surpluses and scarcities.* British Government efforts here have moved at a snail's pace, as have efforts at rent decontrol. But then genuine measures to free markets are subordinated to gimmicks such as the supposed abolition of domestic rates. But then, you cannot expect much market liberalism *from a Government whose* bead objects to its citizens drinking imported Perrier and wants them to drink Malvern water instead.

Why not float the BBC?

From Mr T. Horton

Sir,—In his Lombard column of October 13, Samuel Brittan discussed the possible sale of BBC Radios 1 and 2.

A much simpler, but more radical, approach which the Peacock committee seems to have ignored would be the flotation of the BBC in a manner comparable to that of British Telecom and British Gas.

Rather than become bogged down in the means of financing the BBC, it would be wiser to see it for what it is, namely a major subscription service broadcasting organisation. A subscription service is a perfectly valid means of financing and there is no reason why the BBC should not retain this characteristic, with controls on the level of subscriptions comparable to those that already apply to British Telecom. Similarly, the BBC could retain its charter. It could also be encouraged to provide an enhanced range of services, if it is able to do so from better management of resources and the generation of overseas sales of programme software.

In this way, privatisation would provide the opportunity for the BBC to retain its basic integrity, while detaching it further from the public sector and basing it more appropriately for the pluralistic broadcasting system that will prevail in the next century. Ideally, the BBC would become the leading subscription broadcasting service in the world, at a further remove from Government and with its capital held by employees and outside shareholders. This would certainly be a more elegant solution than many of the proposals that have been floated in the past year.

I should point out that I write as a former chairman of the finance committee of the Association of Independent Radio Contractors.

Toby Horton,
Minster House,
Arthur Street, EC4.

Letters to the Editor

Commercialised culture

From the Managing Director, Radio, BBC

Sir,—Samuel Brittan's latest Lombard column (October 13) makes bullish estimate of the sell-off value of Radios 1 and 2 as "going concerns."

But do broadcasters really own transferable rights in the frequencies they are licensed to occupy? If so, it is news to me—and will be to Granada, Thames, London Weekend TV, etc.

Then, does his exploitation scenario include carrying-over obligations as well as opportunities? I look in vain for talk of news rooms, sports desks, musical groupings, let alone fully-fledged orchestras.

Indeed, does not Charles Johnscher, whose estimate Samuel Brittan quotes, openly assume a whole-hearted hands-off, ads-in-operation? As a consequence, the privatised "going concerns" will inevitably bear little listening relationship to what millions now appreciate and enjoy every day.

Samuel Brittan's particular indelicacy is that he takes it as axiomatic that all popular culture is and should be commercialised culture. Can he not accept that a *major part of* the undeniable appeal of Radios 1 and 2 as they now are is that they are "ad-free"?

That "ad-free" quality is equally of the essence to Radio 3 and 4, as Samuel Brittan readily accepts. *It is surely* a most vulgar form of cultural elitism to insist on maintaining "ad-free" status for what you personally like, while consigning listeners to alternative forms of radio to an "ad-only" future. Why one rule for Jameson and another for Janacek?

Brian Wenham.
Broadcasting House, W1.

Profit related pay

From the Chief Executive, New Bridge Street Consultants

Sir,—We commissioned the Blanchflower and Oswald studies, and are *disappointed* that Samuel Brittan (October 16) labels the second as "very hostile" to PRP (profit related pay). On the contrary, that study finds that PRP is already being practised by over 40 per cent of UK enterprises. My conclusion is that PRP is here, and here to stay, whether or not there is tax relief for it.

The intent and purpose of the two studies was neutral, and designed to improve the quality of the debate about PRP. The results are unexpected, but they represent the most serious and weighty studies on PRP in the UK, and command serious consideration.

It is very significant that the Weitzman justification for PRP is not advanced in the Green Paper. Indeed you reported (October 13) Weitzman's own significant change of approach (it can't do any harm, and something has to be tried) which is due in part to his consideration of the first study. If the Chancellor has abandoned the Weitzman macro-economic justification for PRP, then the second study warns that the remaining reasons, summarised by Samuel Brittan, have yet to enjoy the backing of concrete evidence:

The arguments for PRP are compelling, as already accepted and acted upon by a significant number of companies, if, and only if, more account is taken of the human spirit and its need *for* motivation, than of the economists' macro-economic balance sheet;

The arguments for tax relief for PRP are compelling if, and only *if*, they concentrate *on the potential of PRP* (rather than an incomes policy) to break the inflationary pay *rise* cycle, and not on the economic arguments advanced in the Green Paper.

Laurie Brennan.
30-34 New Bridge Street, EC4.

Transferable allowances

From Mr J. Stirling.

Sir,—The letter from Mrs Barwise (October 11) is interesting as it demonstrates how opposition to reform can arise from a gross misunderstanding.

Mrs Barwise asks, for example, why a mother and daughter *living* together be denied the facility of transferable allowances just because they cannot get married? The simple answer is that they have no need to transfer allowances as they do have, which a married couple does not have, the facility to transfer income (by deed of covenant).

Those who will benefit most from the Government's proposals will be the young couple with a young family where the young wife wishes to bring up their children at home. This old fashioned custom may be anatheme to some, but many of us will think that the children will have a happier childhood and that society will be the better for it.

John F. Stirling.
13 Duchess Drive,
Helensburgh, Dumbarton.

Intellectual property

From the Chairman, Intermotor

Sir, — The Government proposals for reform of intellectual property law are not necessarily misunderstood by companies that will be affected, but do appear to be misrepresented by Mr P. Orton (October 14). There are many arguments and points that can be made against these proposals but I will mention only three.

The proposed new laws will not protect only inventive or *innovative designs but* will extend to any simple functional design, even a slight variation of an existing product. This will lead more to legal ingenuity rather than design ingenuity.

The "limited" period of protection is a complete monopoly for five years and e part monopoly for another five years. *A small change of design* can perpetuate this situation.

These proposals will tie the hands of British manufacturers of spare and replacement parts thereby giving overseas manufacturers even greater advantages.

G. H. Paris,
Occupation Road,
Hucknall, Notts.

Comparing forecasts

From Mr M. Layton

Sir,—I read (October 16) that the Treasury is entering the business of publishing comparisons of the economic forecasts of other organisations. Should this prove to be profitable, I hope we will see the operation *sold off to one of the private* organisations which have, from time to time, provided a similar service.

More importantly, may we have a guarantee that if such a venture cannot fully cover its costs, the Treasury will stick to its knitting and use the resources to extend the provision of economic statistics rather than recycling what is already available.

Mark Layton,
Incomes Data Services.
193 St John St, EC1

Gasless in Bucks.

From Mr A Stevens

Sir,—I notice that British Gas is (like the TSB) giving preference to existing customers when deciding the allocation of shares under the privatisation programme.

This policy is very unfair to those who would like the opportunity to become gas consumers, but are unable to take advantage of using this cheap form of fuel because British Gas *refuses to connect many consumers* in small rural communities. Even though a gas main runs through this village British Gas will not connect us "in the foreseeable future," so we suffer the double disadvantage of lack of choice of fuel and a reduced chance of buying British Gas shares. At least everybody had a choice of being (or not being) a TSB customer: British Gas policy is unfair to those in remote communities, and should be amended to discriminate against only those who could be British Gas customers but have not taken the opportunity.

A. H. Stevens,
Hill Meadows,
Hatch Lane,
Radnage, Bucks.

FINANCIAL TIMES

Monday October 20 1986

Roderick Oram on Wall Street

Mammon for China Post-Mao

THREE WEEKS from today, some 25 men and one woman representing the cream of Wall Steet, will ascend the steps from Tianamen Square in the heart of Peking and enter the Great Hall of the People.

They should not mistake any muffled rumbling as thunder in the hills north of the capital. More likely, a neglected asset will be rolling over in the Mao mausoleum out in the centre of the vast ceremonial square.

Billed as The China-United States Symposium on Financial Markets, the four-day event, co-sponsored by the New York Stock Exchange and the People's Bank of China, deserves the working title Mammon comes to post-Mao China.

Less than 40 years after stocks and bonds were branded capitalist tools for the suppression of workers and the free-wheeling Shanghai Stock Exchange was turned into a book store, the Chinese want to hear what Wall Street can do for them.

Clearly, economic-reform-minded leaders are keen to adapt and adopt capitalist mechanisms useful to China. A Shanghai Stock Exchange opened last month consisting as yet of little more than half a dozen desks to serve customers walking in off the street. In the southern province of Guandong, more than 1,000 companies have issued stocks or bonds.

All this is rather bemusing to Mr William Rogers who, 14 years ago, stood in the Great Hall of the People toasting Chairman Mao. Then Rogers was US Secretary of State accompanying President Nixon on his historic journey to the Middle Kingdom.

Now Mr Rogers, an adviser to Merrill Lynch, the world's largest retail stockbroker, will return to deliver a paper on capital markets, their function, scope and evolution. He says it would have seemed "very unlikely" back in June 1972.

"The concepts are not difficult if we don't get into details. I just hope we can avoid the Glass-Steagall act," adds Mr Rogers, a prominent financial lawyer.

Even Confucius would have had trouble conjuring with "non-bank banks" and other arcane concepts enshrined in the act, a crumbling last stand against commercial bank encroachment on investment bank territory.

Wall Street's jargon "is even tough for Americans," Mr Rogers says.

Bridging the knowledge and culture gap is something Mr James Balog, vice chairman of Drexel Burnham Lambert, knows about. Introduce someone from Iowa to some of Wall Street's more innovative instruments, he says, and the likely response is: "Holy mackerel. Ain't that immoral? Ain't it outlawed?"

For his Peking speech on How diversity meets borrower and lender needs, he plans to take a visual aid he has used for Americans: pictures of plants revolving around the sun. Pure stocks and bonds are the sun and derivative instruments are the planets – starting with options and futures near the sun and working out to more esoteric ones such as tigers, cats, yaks and sins.

"I'll suggest they stick to the first couple of rings and try to avoid some of the nutty things we do."

Perhaps he should avoid also mentioning Drexel's speciality, junk bonds, lest his listeners believe he is offering to underwrite an expansion of the Chinese merchant marine.

Rest assured, though, he knows how to size up his audience. He says he would never dream of talking Wall Street back home in western Pennsylvania. "I'm not sure it would be an elevating experience for them."

Yet, for all the scepticism in the heartland about Wall Street's more dazzling acts, some 47m Americans own shares directly and another 130m have an direct interest through such things as pension funds – and life insurance policies.

But go back 10 years and that was not the case, points out Ms Martha Redfield Wallace, a former board member of the New York Stock Exchange. The phenomenal rate at which members of the US public have become investors could be a lesson to the Chinese, she believes.

In her symposium speech on the need for investor information and education, she plans to explain the role of security analysts, company reports, publications and other aids to investors.

This was apparent last May when Chinese vice-chairman Yao came to Wall Street. Mr John Phelan, Chairman of the NYSE, presented him with a miniature statute of the bull goring the bear (or the bear clawing the bull, if you dwell on downside risk).

Turkey plans measures to liberalise its markets

BY DAVID BARCHARD AND ALAN FRIEDMAN IN ANKARA

THE TURKISH Government is expected to announce shortly a series of important measures designed to liberalise the country's embryonic financial markets. The initiatives being planned by the Government of Prime Minister Turgut Ozal include lifting the tight restraints on bank deposit interest rates, the introduction of a commercial paper market and the setting up of a new government securities market.

Taken together these moves could go a long way toward nurturing the kind of free market economy which Mr Ozal has been trying to develop since he took office at the end of 1983. They would supplement previous initiatives such as the launch of the Istanbul stock market last December, the introduction of Turkey's first formal interbank market last March and the insistence by the central bank on uniform accounting among commercial banks.

The second wave of liberalisation measures, which are expected to be unveiled within the next two weeks, coms at a time when many Turkish companies are paying as much as 70 – 80 per cent for bank loans. This high interest rate structure, which reflects the country's 30 – 35 per cent inflation level and a need for banks to recoup profits to cover huge bad debts, is shackling corporate growth and imposing a punitive debt servicing charge on industry.

The most important of the new measures will be the launch of commercial paper for the first time in Turkey. A draft decree has been prepared and the approval of commercial paper issues by companies should allow corporate borrowers to obtain finance at a cost of roughly 30 per cent below bank lending rates. Officials involved in the planning of the commercial paper decree reckon the volume of company issues could reach as much as Turkish lire 200bn ($268m) in the first 12 months of operation, a sizable amount for Turkey.

At present the Government sets deposit rates for Turkey's 54 domestic and foreign banks. Normal current accounts pay only 10 per cent interest, while time deposits of up to 12 months pay as much as 52 per cent; the same interest as is paid on one-year Treasury bonds. When deposit rates are allowed to float freely the rates are expected to jump initially; the long-term goal is to create a more competitive financial environment.

The introduction of a government securities market is designed to stimulate more secondary market trading in a country where state bonds are generally auctioned and then placed by banks.

The new liberalisation measures, which will probably be phased in gradually over a period of several months, come at a delicate moment for the Turkish economy, which is still saddled by $24bn foreign debt burden. The hope in Ankara government circles and in the Istanbul business community is that by nurturing the growth of financial markets Turkey's private sector will be able to obtain cheaper funds and make the capital investments needed to sustain the country's economic growth

VW, MAN in talks on supplying trucks to Enasa

By Kenneth Gooding in London

VOLKSWAGEN and MAN of West Germany are in talks about the supply of light trucks to Enasa, the state-owned Pegaso vehicles group of Spain.

The deal will probably be completed by the end of this year and it seems likely that Enasa will assemble some vehicles in Spain under licence.

Mr Norman Kurtis, director of Enasa's international sales division, confirms that discussions between the companies have been taking place but says: "It is a little too early to say exactly what we want from them."

Mr Wilfried Lochte, chairman of MAN Commercial Vehicles, says the talks are about the range of 6-10 tonnes trucks produced jointly by his company and Volkswagen.

If the deal is completed, it will give Enasa a wider range of modern vehicles to sell through its dealer network in Spain.

It would also provide a boost for the VW-MAN joint venture – designed to provide trucks to fill the gap between the top end of VW's commercial vehicle range and the bottom of MAN's – which has not lived up to expectation.

The partners originally hoped for output of joint-venture vehicles to reach 15,000 a year, with 10,000 for export, but production has never been above 5,000. Last year the joint venture sold 3,700 vehicles. Mr Lochte says the total should go above 4,000 this year.

The MAN-VW venture is now marginally profitable and the two German groups have renegotiated their deal so that all production will take place at MAN's Salzgitter factory, near Hanover, whereas it has been shared with VW's Hanover plant in the past.

Enasa is one of Western Europe's smaller producers of heavy trucks. Output this year will be about 5,500 heavy trucks and 4,000 vans and light trucks up to 4.5 tonnes gross weight.

The Spanish Government has in the past two years attempted to sell the company, and there have been serious discussions with General Motors of the US, Renault of France and Toyota of Japan, but with no positive result.

The Spanish authorities now seem to have come to the conclusion that until Enasa returns to profit and becomes a viable company again it is unlikely to find a buyer or suitable partner for it.

Industry watchers point out that Volkswagen supplied technical knowhow and had cars built under licence by another state-owned Spanish company, Seat, for two years before eventually taking over Seat this summer. They suggest a similar arrangement might be in the offing for Enasa.

Mr Kurtis says Enasa, which suffered losses of Pta 16bn ($122m) last year, should break even at the operating level in 1987. The time taken to return to a net profit will depend on whether Enasa is given a capital injection as part of the five-year plan to be drawn up by the end of this year.

Two years ago the Spanish company signed an agreement with MAN for Enasa to make a German-designed city bus under licence. The first of these vehicles will go on to the road later this year.

Enasa also has a co-operative venture with DAF of the Netherlands to produce heavy-truck cabs which will appear on Pegaso vehicles for the first time next year.

Jaguar dispute, Page 6

THE LEX COLUMN

Low tide on Dover beach

The financing of the Channel Tunnel is one of those projects which the average City technician would probably rather meet in a business school exercise than in real life. After a gestation period of some 184 years, the task of raising £200m of equity this week takes Eurotunnel to the harsh moment of decision: glorified business game or genuine mega-project?

Impossible to sell on a multiple of earnings – there cannot be any earnings for at least seven years after the initial capital is poured down a mineshaft in the Kentish cliffs – equity in Eurotunnel has to be sold on the basis of discounted dividend flow over the next 56 years. Who can do other than hope that the crucial assumptions – on factors like inflation and competitive pricing from the ferries – prove less porous than the Lower Chalk Marl through which the tunnel has to be drilled?

The more obvious risks that Eurotunnel's shareholders face have been well documented, not least in Eurotunnel's own pathfinder prospectus. In outline, there are a dozen questions on which any prospective investor ought to be satisfied before stumping up. Bearing in mind that in the early years shareholders' equity will be roughly 400 per cent geared, and producing no dividend, the equity is risk capital in the fullest sense.

The first set of problems have to do with the cost of construction. Although the contractors are subject to a penalty if costs overrun – and bonus arrangements give them an inducement to undershoot if they can – any overrun in excess of 20 per cent falls squarely on the company. If inflation or geological disaster drive up costs beyond that point, the equity starts to be squeezed and the debt to pile up. Moreover, cost overruns are like as not to be associated with a delayed start to actual traffic.

Even a relatively mild case of this sort would make a painful difference to the attractiveness of the investment. On Eurotunnel's own projections, a one-year delay and £200m overspend (only 4 per cent above budget) would put back the first dividend payment by four years, lift peak debt by £750m, frustrate the planned securitisation of bank debt and drop the overall rate of return to shareholders by a tenth.

Assuming good performance from the contractors, who are after all shareholders too, there is a parallel type of risk arising from the debt finance package; floating at a margin over Libor, the funds that Eurotunnel hopes to employ have no upper limit to their cost, though Libor is wishfully assumed to run at 9 per cent throughout. Spiralling interest rates in the period before Eurotunnel has achieved its first operating cash flow would certainly drop the return, could easily defer the payment of a dividend – and at worst might precipitate a reconstruction.

There is no inconsistency, either, in the horrid thought that high inflation might flatten Eurotunnel in the construction period, only to be dispelled by a revival of sound money policies during the revenue generating period. Inflation has only to fall to 4½ per cent after 1993 and stay there for the shareholders overall return to drop by a full percentage point. The nightmare case – cost overrun, succeeded by low inflation, with maximum competition from the ferries – might well push the prospective return down into regions where investors cannot make their risk/reward sums add up.

Apart from these individual risk factors, there are problems which invariably afflict such very long-lived projects. The projections are vulnerable to compounding error, whether on costs or revenues. Without any major dislocation to the project, a hiatus in traffic growth or more onerous operating conditions (stiffer immigration controls, perhaps) could be compounded over half a century into a substantially different result from that now planned.

The simple fact about Eurotunnel is that tha very long "duration" of its paper must make it more risky (and in the ordinary sense more volatile) than more conventional investments with the same internal rate of return. The fact that there are no revenues or dividends at least until 1994 throws a heavier weight on what comes later. Since the subscribers to this week's placing have also to contend with the possibility that the Chunnel Treaty might not be ratified next year (as might happen if an early UK General Election delayed the necessary hybrid bill, now in select committee) they may wonder if the discount for early payment is sufficient.

It is a tribute to the robustness of the idea that the tunnel has reached this decisive point. It is probably resistant to crude safety propaganda about crackpots brewing tea over a gas flame in the claustrophobic space of a railway gondola. Eurotunnel can even claim that the cash flow model does generate a return under quite punishing conditions – though perhaps not a very enticing one.

Despite the unusual difficulties of selling a project that cannot produce a substantial return until most of the promoters and investors are safely underground themselves, Eurotunnel will probably scrape home this week. But then, the question whether they will be thanked by the ultimate beneficiaries is not an issue in which senior fund managers of the present day can have much personal interest.

Plan to solve EEC cash crisis by splitting off farm spending

BY QUENTIN PEEL IN BRUSSELS

A PLAN to resolve the EEC's chronic cash crisis by splitting the budget into two self-contained parts – one for farm spending and one for other policies – is proposed in a report out today.

The proposal would seek to control the inexorable growth of agricultural subsidies and insulate all other spending plans, such as social and regional programmes, from its unpredictable consequences.

It also raises the possibility of the farm budget burden falling most heavily on the member states and farm sectors most responsible – in defiance of EEC doctrine since the Community was founded.

The far-reaching plans have been drawn up by a group of independent financial experts under the auspices of the Centre for European Policy Studies in Brussels – with the support and assistance of the European Commission.

Their publication comes at a key moment when the debate on the future financing of the Community is about to be relaunched by the Commission, facing imminent exhaustion of its current cash resources.

Next year's Community budget is expected to absorb all the money within the ceiling on contributions from the member states, set only last January at a notional 1.4 per cent rate of value-added tax. The ultimate shortfall depends on external factors such as the dollar exchange rate and the world price of farm produce, beyond EEC control.

"It is becoming increasingly clear that the existing pattern of Community policies is unsustainable within the Community's existing resources," the report says.

It pins the blame for the "loss of control and budgetary inefficiency" squarely on the costs of the Common Agricultural Policy (CAP), in the form of price guarantees and other open-ended market-support measures for EEC farmers.

The authors, chaired by Professor Luigi Spaventa of Rome University, and drawn from France, the Netherlands, the UK and West Germany, insist that their plan for "segmentation" of the budget would be "to better enforce budgetary discipline" rather than the opposite.

Both sides of the budget would be allocated their own limited resources and each would be required to live within its means.

Overspending on the agricultural budget would have to be financed by additional resources raised from the same sector," they say, "perhaps through an extension of co-financing, or an emergency agriculture tax."

They admit that the plan would have unequal effects on the different member states – in particular putting paid to any hopes the poorer Mediterranean states might have of getting an increasing share of CAP price-support cash for their crops.

They propose that the commitment of the member states to greater equality of income and employment levels between the wealthy centre and the poorer periphery should be met by more spending directly through the regional fund in the "general budget" segment. This could be boosted by direct financial transfers.

The most radical suggestion in terms of EEC orthodoxy is their proposal that some element of "juste retour" – the concept of member states getting out of the budget in proportion to the amount they put in – might apply to the agricultural budget alone.

The authors believe that such a system could provide a more permanent answer to the "British" budget problem – also affecting both West Germany and France – of a member state always paying in more than it gets back from Brussels.

"These problems have become a serious political obstacle to progress towards European integration," they declare.

The Future of Community Finance, by L. Spaventa, L. Koopmans, P. Salmon, B. Spahn and S. Smith. CEPS Papers No 30, price BFr 500 ($12.2) from CEPS, Rue Ducale 33, 1000 Brussels.

Concern over 'zero option'

Continued from Page 1

ment directly, however, on complaints expressed last week by Gen Hans-Joachim Mack, West German Deputy Supreme Allied Commander in Europe, about US negotiating tactics at Reykjavik.

There is deep European ambivalence at the prospect of the zero option being realised. The tentative Reykjavik agreement was that each superpower would leave only 100 warheads facing each other in the Soviet Far East and in the US Far West (Alaska).

The comments by General Mack appeared to reflect the views of both Dr Manfred Wörner, the German Defence Minister, and General Bernard Rogers, Nato Supreme Allied Commander Europe. This will not endear General Rogers to a US Administration increasingly irritated at what it sees as Europe's two-faced attitude.

Mr Shultz said yesterday that the US would pursue a separate agreement on intermediate nuclear weapons at the arms talks in Geneva.

Nut price rise bites

Continued from Page 1

five years, especially in Japan. In the biggest European market, West Germany, housewives are reported to be preparing to shift to the almond's deadly rival, the hazelnut.

Hazelnuts have not been without their problems either. Several weeks ago prices jumped in response to market talk that the Turkish crop – which provides three quarters of world supplies – had been contaminated by radiation from the Soviet Union's Chernobyl nuclear disaster.

As for peanuts, prices have skyrocketed as a result of a drought during the planting season earlier this year in the south-eastern US.

Big Bang players act out stressful script

Continued from Page 1

on the screens of all stock market participants and will provide the basis for a shift to telephone-dealing after Big Bang.

But in the first two hours after the deadline several firms were still struggling and becoming increasingly embarrassed by the splatterings of red text by their names on the Seaq screens. This revealed to their competitors and clients all the shares in which they were supposed to be making markets, but whose opening prices they were unable to input because of failings in their computer systems.

Scrimgeour-Vickers, a subsidiary of Citicorp, Wood Street Securities, owned by Hill Samuel, were probably the most common names to appear in electronic red ink. Warburg Securities had to tell its salesmen to stop generating orders from clients with such vigour as its computer system became overloaded. But Kitcat and Aitken, a subsidiary of the Royal Bank of Canada, was the only market-making firm to come clean and admit on Seaq that its computer system had failed and it would be unable to input prices during the morning session.

The 278 brokers and fund managers who had been given scripts by the stock exchange showed unanticipated enthusiasm for buying and selling millions of pounds of imaginary stock which put further strain on the system. Some "investors" were suspected of going beyond the scripts, others of bundling together all their orders into the early morning session, so that they could take the rest of the day off. As a result, trading reached a peak of 17 transactions a second at around 10am, although it subsequently tailed off and the afternoon's trading was below expectations.

The second hurdle for the market-makers, after they had input their share prices on to Seaq, was to adjust them, upwards if they were short of stock and wanted to attract sellers, downwards if they owned too much.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	22	72	Dubrovnik	S	22	72	Malta	S	22	72	Rhodes	S	21	70
Algiers	S	24	75	Edinburgh	C	8	46	Manchester	C	7	45	Rio de J'o	S	24	75
Amsdam	F	11	52	Faro	S	21	70	Manila	S	31	88	Rome	S	22	72
Athens	S	22	72	Florence	F	18	64	Melbourne	C	16	61	Salzburg	F	12	54
Bahrain	S	32	90	Frankfurt	C	14	57	Mexico City	C	18	64	San Francisco	S	20	68
Barcelona	S	21	70	Funchal	S	23	73	Miami	S	29	84	Seoul	S	18	64
Beirut	S	28	82	Geneva	C	13	55	Milan	Fg	16	61	Singapore	S	31	88
Belfast	F	14	57	Gibraltar	S	20	68	Montreal	C	8	46	Stockholm	C	5	41
Belgrade	S	21	70	Glasgow	C	8	46	Moscow	S	8	46	Strasbourg	F	13	55
Berlin	F	14	57	Guernsey	C	12	54	Munich	F	12	54	Sydney	S	21	70
Biarritz	S	24	75	Helsinki	C	5	41	Nairobi	S	25	77	Taipei	C	24	75
Bmghm	F	14	57	H. Kong	S	28	82	Naples	S	22	72	Tangier	S	24	75
Blackpool	C	12	54	Innsbruck	F	12	54	Nassau	S	29	84	Tel Aviv	S	28	82
Bordeaux	S	23	73	Inverness	C	6	43	New Delhi	S	32	90	Tenerife	S	24	75
Boulogne	F	14	57	Islamabad	S	29	84	New York	C	14	57	Tokyo	C	17	63
Bristol	F	13	55	Istanbul	S	18	64	Nice	S	21	70	Toronto	C	7	45
Brussels	C	12	54	Jakarta	F	31	88	Nicosia	S	27	81	Tunis	S	24	75
Budapest	S	18	64	Jersey	C	13	55	Oporto	S	18	64	Valencia	S	22	72
B. Aires	C	16	61	Jo'burg	S	23	73	Oslo	C	5	41	Venice	F	14	57
Cairo	S	28	82	Lima	C	18	64	Paris	F	14	57	Vienna	S	14	57
Cape Town	S	22	72	Lisbon	S	19	66	Peking	S	20	68	Warsaw	C	8	46
Chicago	C	13	55	London	F	18	64	Prague	F	13	55	Washington	C	12	54
Cologne	F	12	54	Los Angeles	S	23	73	Reykjavik	C	4	39	Zurich	C	15	59
Copenhagen	C	13	55	Luxembourg	F	11	52								
Corfu	S	22	72	Madrid	S	17	63								
Dallas	S	16	61	Majorca	S	21	70								
Dublin	C	8	46	Malaga	S	22	72								

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

HK group in satellite talks

Continued from Page 1

would carry Western payloads into orbit, at a cut-price rate of about $10m a satellite, using its Proton rockets. It has made a series of direct approaches to Inmarsat, a London-based international body which operates satellites for marine communications.

So far, however, the Soviet offers have had a cool response. Companies and governments argue that the Soviet Union lacks any kind of track record in placing Western satellites into space – although the country has had considerable success in launching its own space hardware and some for the Indian Government.

Using Jardine Matheson as an agent would, it is argued, lend credibility to the Soviet case. It would be another sign that the Soviet Union is keen to co-operate

A possible stumbling block to the Soviet plans is the attitude of the US Government. The State Department has said that, due to technology transfer regulations, it would not allow the sophisticated US-made components that feature in virtually all Western satellites, to be shipped to the Soviet Union.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday October 20 1986

BankAmerica loss mounts to $600m

BY WILLIAM HALL IN NEW YORK

BANKAMERICA Corporation, the financially ailing West Cost banking group which announced a top management shakeup last week, lost $23m in its third quarter after crediting over $120m of special gains on property and other asset sales.

BankAmerica released its results at the close of the business day on the West Coast last Friday long after the New York Stock Exchange had stopped trading. However, it appears that the latest loss, which boosts the nine months loss to $600m or $4.18 per share, was in line with analysts' expectations.

There had been some fears on Wall Street that the new top management team would use the occasion to clean up the group's troubled loan portfolio by announcing further heavy writeoffs. However, the third-quarter loan loss provision of $376m, is $112m below last year's third-quarter provision, and far smaller than the second-quarter provision of $988m.

Nevertheless, the latest figures show that the group's credit losses are continuing at a higher than anticipated rate and its now-performing loans of $4.5bn show little sign of declining while common stockholders' equity has shrunk by close to a fifth over the last year and now stands at $3.2bn.

Net credit losses of $403m in the latest quarter were $67m below the comparable figure of last year but were ahead of the second quarter 1986 credit losses of $388m. The annualised rate of net credit losses to average loans outstanding was 1.97 per cent in the third quarter which was up on the 1.86 per cent in the second quarter.

The group said that while the primary contributors to net credit losses during the current quarter were the foreign and commercial and industrial sectors, foreign net credit losses were down significantly when compared with the same period a year ago.

Mr A.W. Clausen, the former president of the World Bank who has been recalled to resume the helm of the banking company he once led, said that his number one goal was to return the group to profitability. When he left for the World Bank in 1980, BankAmerica earned $646m.

Last year the group lost $337m and analysts expect it to lose well over $500m this year even if it returns to profitability in the current quarter.

BankAmerica shares ended the week at $14 and Wall Street analysts believe that the group will soon announce the rejection of an unsolicited $2.8bn takeover offer from First Interstate Bankcorporation of Los Angeles. First Interstate values its offer for BankAmerica at $18 a share but Wall Street analysts say that it is more likely to be worth about $14 to $18 a share.

Viacom agrees to $2.9bn buyout

By Our New York Staff

VIACOM International, the US broadcasting and cable TV group which has been the subject of frequent takeover speculation, has agreed to a $2.9bn management buy-out.

Viacom International announced late on Friday that it had entered into a definitive merger agreement providing for the company to be acquired in a leveraged buy-out transaction by a new corporation.

The corporation is to be owned by certain members of the senior management of Viacom and the financial advisers to the buyout group – Donaldson, Lufkin & Jenrette, Drexel Burnham Lambert and First Boston – as well as the Equitable Life Assurance Society of the US and certain other investors.

Under the agreement, Viacom shareholders will receive for each share $37 in cash, a fraction of a share of an exchangeable preferred stock valued at $7, and 20 per cent of the equity of the new company. Viacom's management launched its first buy-out bid on September 16, but this offer of $37 per share in cash and $3.50 of paper, was rejected by the Viacom board along with a second offer.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,331.9	339.3	1,784.3	2,403.0
Prev	2,272.5	11.3	3,349.7	2,963.1
Other	1,326.2	1.2	10.8	303.2
Prev	1,200.4	–	950.5	182.3
Secondary Market				
US$	22,863.6	1,178.5	16,468.7	4,670.4
Prev	24,087.0	1,271.9	12,437.0	4,930.1
Other	12,819.3	64.7	4,765.3	5,030.9
Prev	11,538.8	84.1	8,022.7	4,410.5

	Cedel	Euroclear	Total
US$	15,165.6	36,652.1	51,817.7
Prev	15,702.1	34,621.6	50,323.7
Other	11,289.3	12,232.3	23,521.6
Prev	11,062.0	15,337.3	26,399.3

Week to October 16 1986 Source: AIBD

AMR in record quarter

BY DAVID BLACKWELL IN NEW YORK

AMR, parent company of American Airlines, second largest carrier in the US, boosted third-quarter earnings to a record $111.7m or $1.83 a share from $87.3m or $1.45 a share last time.

Mr Robert Crandall, chairman and president, said the group was "very pleased" with the outcome for the quarter. The decline in revenues per passenger mile was more than offset by the increase in passenger traffic.

Total turnover was flat at $1.55bn against $1.56bn – the result, said the group, of the sale of three subsidiaries. The disposal of AMR Training resulted in a gain of $3.4m in the quarter.

Nine-month figures include total pre-tax gains of $60.3m from the sale of Flagship International and AMR Energy as well as AMR Training. Nevertheless, nine-month earnings remained well down at $244m or $4.01, against $321.4m or $5.61

Selective trend towards non-dollar bonds

NEW ISSUE managers of Eurobonds are hot in pursuit of opportunities for borrowers in the currency sectors of the Eurobond market as investors continue to shun dollar bonds, writes Clare Pearson in London.

Recently issuing houses have been lighting on the high-yielding Australian and Canadian dollar markets, which provide investors with an attractive pick-up in yield over US dollar bonds.

But the problem with these minor, retail investor dominated markets is that issuing windows tend to close as quickly as they open.

Issues for most borrowers hinge on swap opportunities, so it is often impossible to prevent an oversupply of new deals. And swap opportunities need not coincide with strong investor demand.

For instance, there has been a revival of issues in the Canadian dollar sector in recent weeks, although dealers say investor interest in this sector is waning rather than growing, because of concerns about the Canadian economy.

This means that investors are highly selective about new issues. Last week's 9¾ per cent five-year issue for Austrian bank Creditanstalt, for instance, slipped quickly to potentially loss making discounts to issue price. Investors were equally unenthusiastic about a new issue for Olivetti, although a fairly-priced deal for Eastman Kodak traded well.

The Australian dollar sector has also seen an upsurge in new issuing activity. This market has been convalescing since a sharp fallout during the summer when the Australian dollar plummeted on the foreign exchanges. Recently, Continental investors have been nibbling at Australian dollar bonds which offer temptingly high yields of around 14 per cent.

But now new issue managers are becoming concerned that the market is oversupplied again. A new deal for Hamburgische Landesbank met strong demand from German investors, but by the end of the week syndicate managers were driven to issuing zero-coupon bonds because demand in the couponed sector was drying up.

For volume of issues and ease of timing borrowers must turn back to the dollar market, but this route was looking extremely hazardous last week.

Conditions ranged from the tough to the chaotic, reaching a low point on Wednesday morning when dealers sold almost a third of one $300m offering just because they spotted it was yet another aggressively priced deal for Denmark.

The wave of selling followed the first announcement of the issue on the screen, and the dealers sold bonds they were never to own.

This enabled Morgan Stanley International to carry out a severe "short squeeze" later. This is the practice of a lead-manager forcing dealers who have sold a deal short to buy bonds back at a heavy loss.

Those who suffered from Morgan Stanley's revenge tactics were smarting last week, but most of the market supported Morgan Stanley in the move.

There is a growing feeling of a need for greater order in syndication, especially as new dollar bonds are becoming harder to sell.

With the fixed rate market in such a sorry state, the European Investment Bank, which in normal market circumstances would issue there, chose the floating rate note market last week.

But this provided the EIB with cold comfort. After a shakeout last month, investors have failed to return to the market in size as they see little immediate prospect of capital gain. The only bonds that can be sold at the moment, dealers say, are those that provide a funding profit by paying interest at levels above London interbank offered rate.

But the EIB's issue was priced slightly more expensively than the recent floating rate note for the United Kingdom, with a sub-London interbank bid rate coupon.

Even in a healthier market dealers said this would have been ambitious for a borrower previously unknown to FRN investors as it lacked a precedent to justify the terms. In last week's market it seemed foolhardy, and the issue traded consistently at discounts outside the level of its 20 basis point total fees. It was quoted on Friday afternoon at 99.61 on the bid side.

Trading in the D-Mark market was very thin last week, as investors' hopes of a cut in the West German discount rate diminished. Prices of longer-dated bonds fell by as much as 3 points on the week.

In this environment only one lead-manager, WestLB, ventured to launch a new deal. This was a DM 125m 10-year bond for the Finnish borrower, Imatran Voima. It was quoted by the lead-manager on Friday at a discount to issue price of 3¼ points, outside the level of its 2½ point fees.

In the Swiss franc market prices were unchanged on the week in reasonable volume. Although equity-related bonds for Japanese borrowers are now out of fashion with investors, bonds for well-known corporates are attracting demand. A new deal for Philip Morris met strong demand.

Soviet Foreign Trade Bank wins fine terms on deal

THE SOVIET Foreign Trade Bank is coming back to the Euromarket with a $300m, eight-year credit bearing terms finer than any yet seen on a major deal for a Soviet borrower, writes Peter Montagnon in London.

Although this was still not officially confirmed at the weekend, bankers believe that the credit has been mandated to Banque Nationale de Paris on terms that will include an initial margin over London Eurocurrency rates of ⅛ per cent rising later to ¼. This is the first time that an element of ⅛ has crept into the margin structure on a large-scale Soviet borrowing.

Falling oil prices and the aftermath of the Chernobyl nuclear disaster in April have forced the Soviet Union to step up its borrowing abroad, but the terms of this deal suggest there is still demand in banking markets for traditional Soviet credits.

The decision by the Soviet Union earlier this summer to settle outstanding bond claims with the UK led to expectations it might seek to diversify its borrowing programme into bonds and other securitised instruments. In August the Foreign Trade Bank participated as an underwriter in a Y15bn Eurobond for the Nordic Investment Bank, fuelling speculation that it was preparing to launch a bond issue.

However, this latest deal marks a clear continuation of the conventional Eurocredit borrowing for which the Soviet Union is traditionally known. Despite its fine terms it seems likely to be well received in the marketplace given the general shortage of high quality loan assets.

As usual bankers will be looking to see whether US institutions participate in this credit. Many have steered clear of such deals since the Soviet occupation of Afghanistan and the establishment of a military regime in Poland. Despite the abortive talks on arms control at the recent Iceland summit, these political considerations are now regarded as water under the bridge, and one or more US banks which have previously been reluctant may participate in this deal.

However, a decision on participation may now involve more technical than political consideration. A main concern of many US banks these days is to sell on in the secondary market any loan assets they acquire. The potential for such sales at a time when margins are hitting new lows is hard to gauge and for that reason one market view was that US banks may prefer to wait until pricing on Soviet loans has stabilised.

A feature of the market at the moment is that even the finest prices transactions are meeting strong demand. The $500m credit for India's Oil and Natural Gas Commission has been increased to $575m even before general syndication begins. An First Chicago's $100m credit for Italy's IMI credit agency has also been oversubscribed despite its record low margins.

Among new deals last week Hammerson, the UK property company, launched a £100m, eight-year loan facility through Business Mahon. The deal carries a 10 basis point underwriting fee and a maximum margin on drawings of 15 basis points plus the cost of reserve assets.

Arizona Public Services has arranged a $225m, two tranche term loan through Credit Suisse First Boston. One $125m five-year tranche carries a margin of ⅛ per cent over Libor or ⅜ per cent over certificate of deposit rates. The other is a $100m, three-year portion carrying a margin over Libor of ⅛ per cent.

Bank of America said on Friday that its $1bn certificate of deposit programme for Japan's Saitama Bank has been increased to $1.5bn because of heavy usage. Following last week's launch of a $150m certificate of deposit programme for Berliner, Bank, Shearson Lehman has brought another German institution, Bank für Gemeinwirtschaft, to the CD market for a $100m programme.

New Eurocommercial paper programmes include an unlimited one for UK retailer Asda-NFI for which County NatWest and Morgan Grenfell are dealers ar well as a $50m programme launched through Bank of America for International Signal and Control Group. This is backed up by a standby credit carrying a facility fee of 17½ basis points and a margin on drawings of 30 basis points. Swiss Bank Corporation will also be a dealer on the commercial paper.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Black to buy 34 newspapers

BY BERNARD SIMON IN TORONTO

MR CONRAD BLACK, the Canadian financier who controls Britain's Daily Telegraph newspaper, is to enlarge his North American publishing interests through the purchase by the Toronto-based Hollinger group of 34 daily and weekly papers in the US and Canada.

Hollinger, which is controlled by Mr Black, will pay C$130m (US$93.5m) for the papers.

The 21 US titles, published in small communities in New York, Pennsylvania, Ohio, Indiana and Illinois, were previously family-owned businesses.

Hollinger bought the Canadian papers from Sterling Newspapers, another of Mr Black's ventures. Hollinger said that an independent quorum of its board of directors not associated with Sterling had approved the purchase. Sterling's papers are published in the provinces of British Columbia, Saskatchewan and Prince Edward Island.

Many of the papers bought by Hollinger enjoy a monopoly in their circulation areas. According to Mr Black, Hollinger's entry into the North American newspaper business is prompted by the fact that the papers "have been historically high margin, reliable, uncyclical and, to a significant extent, insulated from the vagaries of the local economy."

Hollinger has been transformed in the past year from a mostly resources and merchandising holding company to one specialising in communications. Besides its 58 per cent interest in the Daily Telegraph, it has bought a Los Angeles-based cable television network.

● Denison Mines, the Toronto-based resources and industrial group, saw lower oil prices reduce net income to C$4.5m (US$3.2m) in the three months to September 30, from C$19.1m a year earlier. After providing for preferred dividend, the company suffered a loss of 7 cents a share, compared to a 28 cent per share profit last year.

Trading in Denison shares was halted on the Toronto Stock Exchange last Friday pending news of the sale of its major industrial interests. A 54 per cent stake in Lake Ontario Cement, a leading cement and concrete producer in central Canada and the east-central US. Denison said earlier this month that talks were under way with a prospective buyer. Further details are expected today.

Denison's third-quarter revenues fell from C$204m to C$182m, also reflecting lower oil prices. Nine months earnings dropped from C$50.8m to C$15m.

Denison, with interests in uranium, potash and coalmining, passed its quarterly dividend last May for the first time in 27 years. The company has written off its entire 50 per cent interest in the big Quintette coal mine in north-east British Columbia.

Lockheed lifts earnings for first nine months

BY OUR NEW YORK STAFF

LOCKHEED, the US aerospace group, lifted net earnings for both the third quarter and the first nine months on the back of improved profits from government contracts in its major business sectors.

Earnings for the quarter grew to $115m or $1.74 a share from $102m or $1.54 a share, with increased revenues of $2.61bn against $2.46bn.

For the nine months earnings advanced to $298m or $4.51 a share from $273m or $4.14 a share last time. Revenues were $7.41bn, against $6.8bn last time.

The missiles, space and electronics systems sector took in $103m of sales over two months from Sanders Associates, a defence electronics company acquired in August, the company said. The improvement in earnings for the quarter was partly offset by increased interest expense resulting from higher debt after the acquisition.

The group said its funded backlog of orders at September 28 stood at $8.9bn, compared with $9bn last time. This figure did not include unfunded programmes under contract with the US and foreign governments valued at $9.3bn.

Caterpillar loses $26m in quarter

By Our New York Staff

CATERPILLAR, the world's largest maker of earthmoving equipment, plunged into the red for the third quarter, although it maintained its sales level at $1.8bn.

The group blamed a loss of $26m on the effects of the weaker dollar, manufacturing inefficiencies related to reduced production schedules, the 28-day strike at its Joliet, Illinois, plant, and new US labour contracts.

The deficit compares with profits in the 1985 third quarter of $131m or $1.33 a share. This figure includes a $80m gain from the sale of a subsidiary and a $51m provision for costs arising from the consolidation of manufacturing operations at two plants.

Caterpillar said the strike had reduced sales for the quarter by $30m. It expects the shortfall to be recovered in the final quarter.

The group warned in July that profits in the second half would be lower than first-half earnings because of lower sales volume, a reduction in Lifo inventory benefits, a decline in currency exchange gains and higher US labour costs.

US oil group expects deficit

By Our New York Staff

DIAMOND Shamrock, the integrated US oil company, expects to report a loss of about $95m in the third quarter. In the year-ago quarter, the group earned $52.8m or 40 cents a share on revenues of $1.1bn.

Included in the expected loss will be write-downs related to domestic oil and gas leases and a net gain from the sale of the group's chemical operations. The gain will be offset by the establishment of a reserve for possible chemical related environmental liabilities.

Separately, Diamond Shamrock ended negotiations to sell its coal operations to Arch Mineral.

W.R. Grace falls in third quarter

BY DAVID BLACKWELL IN NEW YORK

W.R. GRACE, the chemicals and natural resources group, suffered an 82 per cent decline in net earnings to $4.3m or 10 cents a share in the third quarter, against $24.8m or 47 cents last time.

The latest figure includes a loss from discontinued operations of $2.3m.

The group said its core special chemical business and its general business group operations, which include cocoa products and book distribution, posted gains of 35 per cent and 42 per cent respectively in the period.

These improvements were generally attributable to continued strength in the US, and significantly higher international results, the group said. But the restaurant sector was only near break-even and the fertiliser and petroleum sectors recorded losses.

Revenues for the quarter edged ahead to $1.32bn from $1.25bn, and for the nine months to $3.99bn from $3.8bn.

Nine-month earnings fell by 14 per cent from $102.2m to $87.6m. At the per share level earnings improved from $1.96 to $2.08, reflecting a lower number of shares outstanding.

The latest nine-month figure includes $63m from the disposal of discontinued retail operations, and the previous year includes a similar gain of $34.9m.

The group continues to implement its restructuring programme, and last week reached agreement to sell its jewellery store business.

Saint Gobain returns to profit in half-year

BY DAVID HOUSEGO IN PARIS

SAINT GOBAIN, the French state-owned glass and engineering group, announced over the weekend that its French operations which account for about half of group sales and have long been a drain on its finances, returned to profit in the January-June period for the first time in four years.

Giving full details of its first-half performance, the group – which will be the first state-owned company to be privatised – said that net consolidated profits had more than doubled to FFr 848m ($100m) from a first-half performance in 1985 of FFr 321m. It still expects end of year profits of FFr 2.5bn.

Consolidated sales rose to FFr 41bn from FFr 31bn in 1985, though on a comparable structure the increase was of 10 per cent.

The improvement in profitability reflects both the winding down of the group's heavy rationalisation programme and the lowering of financial charges. The group said that though the recovery in profitability in France was the most striking, it had also returned to the black in all the other countries in which it operates – including Italy

Credit Suisse optimistic

BY JOHN WICKS IN ZURICH

CRÉDIT SUISSE reports favourable earnings performance in the third quarter and expects "a good result" for 1986 as a whole, despite a slowdown in securities business and narrower interest margins.

Last year, net profits had risen by 21 per cent to a record SFr 507m ($313m) and dividends increased from SFr 100 to SFr 106 per bearer share and from SFr 20 to SFr 21.20 per registered share.

The volume of business is stated to have "expanded considerably again" in the past quarter. The decline of the dollar once more had a significant influence on balance-sheet total and earnings but the balance sheet showed a further rise of SFr 3.1bn over the midyear figure to a new high of SFr 96.1bn, this resulting almost entirely from increased interbank transactions.

Since the start of this year, Crédit Suisse's balance sheet has risen by 8.4 per cent.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Tokai Bank §‡	100	2001	15	2⅞	100	Tokai Int.	2.380
Shinkawa Food ¶‡	40	1991	5	3¾	100	Yamaichi Int. (Eur.)	3.750
Hokkai Can ¶‡	40	1991	5	3¾	100	Daiwa Eur.	3.750
Nippon Paint ¶‡	50	1991	5	3¾	100	Nikko Secs. (Europe)	3.750
Christiania Bank (a)†‡	200	Perp.	–	³⁄₁₆	100	Morgan Stanley	–
Nordic Inv. Bank ‡	100	1991	5	7	100¾	UBS (Secs)	6.900
Banco di Napoli †‡	150	1991	5	(b)	100.15	Bankers Trust Int.	–
Banco Exterior Int. †‡	200	2001	15	(b)	100	Chase Manhattan	–
First Union Corp. (c)†‡	150	1996	10	⅛	100	Shearson Lehman Bros.	–
Denmark (d)‡	300	1991	5	7⅝	101¾	Morgan Stanley	5.340
Suzuki Motor Co. ¶	50	1991	5	(3¾)	100	Nikko Secs. (Europe)	*
Morgan Guaranty ‡	100	1991	5	7¼	100⅝	Morgan Guaranty	7.097
Shearson Lehman Bros. (e)†‡	800	1991	5	¹⁄₁₆	100	Shearson Lehman Bros.	–
Yasuda Trust & B'ing §	100	2001	15	(2⅜)	100	Yasuda Trust Europe	–
EIB †‡	300	1996	10	(f)	100	Samuel Montagu	–
Hokkaido Elec. Power ‡	80	1993	7	8⅛	101⅛	Yamaichi Int. (Eur)	7.910
Kosaido Printing ¶	50	1991	5	(3¾)	100	Yamaichi Int. (Eur)	*
Credit National ‡	150	1991	5	7¼	100⅞	Morgan Guaranty	7.036
City of Vienna ‡	75	1996	10	8	101⅝	Daiwa Europe	7.787
CANADIAN DOLLARS							
Creditanstalt-Bankverein ‡	75	1991	5	9⅝	101	Orion Royal Bank	9.365
Eastman Kodak ‡	50	1989	3	9¾	101¼	Morgan Guaranty	9.254
Olivetti Int. ‡	50	1990	4	9⅞	101½	Morgan Guaranty	9.408
AUSTRALIAN DOLLARS							
Hamburgische Landesbk ‡	30	1989	3	14½	101¼	Orion Royal Bank	13.962
Sec. Pacific A'tralia ‡	60	1989	3	14¾	101¼	SecPac Hoare Govett	14.219
GMAC Australia ‡	75	1991	5	0	54	Orion Royal Bank	13.115
Sth A'tralia Govt. Fin. ‡	100	1991	5	0	52⅝	Hambros Bank	13.780
Banca Comm. Italiana ‡	40	1989	3	14¾	101¼	BoA Int.	14.219
D-MARKS							
Inntrav Volvo ‡	125	1996	10	6⅛	98½	WestLB	6.444
SWISS FRANCS							
Int. Hydro Corp. §	30max	1994	–	(5¾)	(100)	Bqe Gutzwiller, K. B.	*
Yuasa Battery ¶‡	50	1991	–	2¼	100	SBC	2.250
Daicel Chemical ¶‡	100	1991	–	2¼	100	UBS	2.250
Sekisui Chemical **§	120	1992	–	(1¼)	*	UBS	*
Prima Meat Packers **¶	50	1991	–	(2⅜)	100	UBS	*
Toyo Real Estate **‡	30	1991	–	4⅞	100	Handelsbank	4.875
Daiwa House Ind. **¶	100	1991	–	(2⅜)	*	UBS	*
Sakata Shokai **¶	30	1991	–	(2⅜)	*	UBS	*
Co-Op'	150	1998	–	(5¼)	*	Swiss Volksbank	*
Philip Morris ‡	100	1996	–	4¾	100	Mgn Guaranty (Switz)	4.750
Province of Quebec ‡	125	1998	–	4⅞	100¼	UBS	4.847
Province of Quebec ‡	125	2006	–	5¼	100½	UBS	5.209
GUILDERS							
Suzuki Motor Co. ¶	100	1991	5	(1⅞)	100	Amro	*
Mort. Bk & Fin.Ag. (D'mark) **‡	150	1991	5	6	99¾	Amro	6.059
LUXEMBOURG FRANCS							
Amro ‡	800	1993	7	7	100¼	BGL	6.954
Nippon Unso **‡	300	1992	5.5	7⅝	100¼	Kredietbank Int.	7.654
KOP **‡	300	1992	6	7⅜	100	BGL	7.375
Union Bk Finland **‡	300	1992	6	7⅜	100	BIL	7.375
Bergen Bank Asia **‡	300	1990	4	7½	100¼	Bqe Paribas Lux.	7.425
ECUs							
EIB ‡	125	1993	7	7¾	101	Bank of Tokyo Int.	7.561
BIL ¶‡	30	1996	10	6½	100	BIL	5.500
STERLING							
BET §	60	2001	15	(6½)	100	CSFB	*
YEN							
Hewlett-Packard ß‡	15bn	1991	5	8	101⅝	Nomura Int.	7.597
Sumitomo Trust ß‡	15bn	1991	5	7	101⅞	Nomura Int.	6.548
Morgan Guaranty †‡	15bn	1991	5	(g)	101	Nomura Int.	–
Borg-Warner ‡	10bn	1991	5	(h)	101¾	Nomura Int.	–

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ⌀ With bond warrants. ß Currency linked. (a) ³⁄₁₆ over 6m Libor. (b) Equal to 6m Limean. (c) ⅛ over 3m Libor. (d) Convertible into FRN paying 6m Libid. (e) ¹⁄₁₆ over 3m Libor. (f) 10bp under 6m Libid. (g) Years 1–2 pays 0.1 × product of 6m Yen Libor+12½bp, years 3–5 pays 6m yen Libor+215bp. (h) First year, no coupon; Years 2–5 7¼%. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Hopes fade for early rally in bond prices

HOPES or another cut in the US discount rate rise and fall with the regularity of the tides in New York harbour, and last week it was clear that the tide of opinion favouring an early cut in official US interest rates was ebbing fast.

For the second week US bond prices lost ground and Smith Barney says in its latest credit market comment that "time is running out for a near-term rally in the fixed income market." Mr Bob Brusca of Nikko Securities, who has been more bearish than most for some months, now believes that his earlier year-end forecast for long-term US government bond yields of between 8 and 8½ per cent may be on the low side.

The yield on US government long bonds rose close to 20 basis points last week and at 7.84 per cent is at its highest level in a month. In the foreign exchange markets the dollar remained fairly stable against the Japanese yen but drifted lower against most European currencies and by the end of the week was being quoted at DM 1.9740. Short-term US interest rates, which over the past fortnight have seemed poised to drop below 5 per cent, edged higher and six-month US treasury bill rates rose by around 25 basis points.

Sentiment during the past week has been affected by a growing number of forecasts of higher US inflation and the reported comments of some of the Administration's recent appointees to the Federal Reserve, who appeared to be suggesting that there was no need for any change in current Fed policy at the moment.

"While we continue to believe that the Bank of Japan will cut its discount rate before year-end, we are not as confident that the Fed will follow through," says Smith Barney. Mr Sam Kahan of Kleinwort Benson Government Securities says: "The US financial markets can best be characterised as currently concerned that inflationary pressures are about to be unleashed."

Although the 4.6 per cent jump in US retail sales last month and the 0.1 per cent rise in industrial production were modestly stronger than expected, last Friday's news of a 7.6 per cent drop in housing starts in September, to an annual rate of 1.68m units, was well below expectations. The fall comes despite lower interest rates and is a worrying reminder that the construction sector is losing its ability to fuel further US economic growth.

A $7.7bn rise in last week's M1 US money supply figures, plus a slightly higher than expected $24.8bn rise in M3 last month, have added to the credit market's concern that the Fed may already be fuelling inflation by being over accommodative.

Nevertheless, last week's news provided little support for the credit market fears that the economy is about to accelerate. The market's pessimistic mood appears to have been fuelled by a combination of worries ranging from fears of a further sharp decline in the value of the dollar, and the prospect of rising oil prices, to the November 4 congressional elections and the quarterly re-funding package scheduled to come to the market in the same week.

The size of the quarterly auctions is due to be announced on October 29, and Smith Barney notes that as the date approaches "the probability of a near-term return to a 7½ per cent or lower long bond yield becomes smaller." Indeed, Aubrey G. Lanston blames much of last week's drop in bond prices on the estimated $26.5bn of new Treasury financings which will be either announced or offered over the next two weeks.

The increasingly pessimistic mood in the government bond market over the last couple of weeks has spilled over into the corporate bond market and most issuers have retreated to the sidelines until the interest rate outlook is clearer. Among the few names coming to market, Fireman's Fund raised $150m with a 30-year debenture priced 175 basis points above the comparable Treasury issue.

The other event of the week was the pricing of First Boston's record-breaking $4bn issue of securities backed by General Motors car loans, known as asset-backed obligations (Abos). The triple-A rated securities were priced around 75 basis points above comparable Treasury notes. The biggest tranche of just over $2bn of notes due October 1988, with an average life of just over one year, carried a 6¼ per cent coupon and was priced at par, giving an effective yield of 6.3 per cent on a semi-annualised basis.

This week, the big economic news for the US credit markets will be the release of the third quarter gross national product (GNP) figures, which will probably be announced on Wednesday, a day later than normal, because of the government's year-end money problems. The best guess is that the figures will show a rise of between 2.5 per cent and 3 per cent, compared with the second quarter's lacklustre 0.6 per cent.

Other key figures this week are the September consumer price statistics and the latest durable goods orders, both due on Thursday. US prices are expected to have risen by around 0.3 per cent and durable goods orders should be up by between 1.5 and 2 per cent.

Most analysts are still expecting US interest rates to decline but, as Kleinwort Benson Government Securities says in its latest market comment, "because of market pessimism, favourable yield developments may not occur quickly."

William Hall

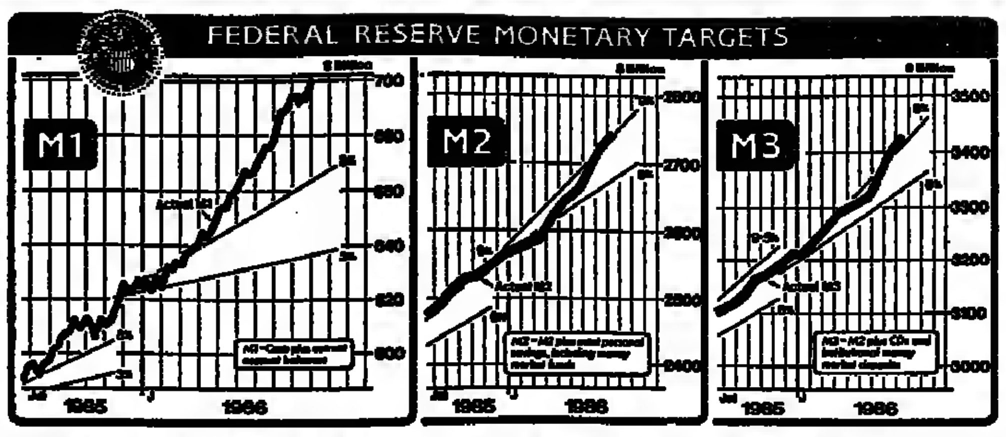
US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	—12-month— High	Low
Fed Funds (weekly average)	5.88	5.71	5.88	9.91	5.71
Three-month Treasury bills	5.29	5.06	5.25	7.40	5.01
Six-month Treasury bills	5.37	5.12	5.45	7.41	5.06
Three-month prime CDs	5.82	5.67	5.90	8.05	5.48
30-day Commercial Paper	5.70	5.65	5.78	9.05	5.55
90-day Commercial Paper	5.68	5.58	5.70	9.95	5.45

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	99¾	−1	7.32	7.46	7.14
20-year Treasury	111¾	−1⅞	8.17	8.01	8.43
30-year Treasury	93¾	−1¼	7.84	7.68	7.83
New 10-year "A" Financial	N/A	−⅞	8.62	9.50	8.75
New "AA" Long utility	N/A	—	9.28	9.38	9.50
New "AA" Long industrial	N/A	−1¼	9.25	9.13	9.25

Money Supply: In the week ended October 9 M1 rose by $7.7bn to $701.3bn.
Source: Salomon Bros (estimates).



FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¼ 94	100	103	0	11.10
AIOC 11 89	75	106⅝	−0⅛	7.81
Alcan Australia 8½ 89	25	99⅝	+0⅛	8.59
Amer Saving 12 89	125	105⅝	+0⅛	9.27
[illegible]				
Ontario Hydro 11⅞ 94	300	118⅞	−0⅛	9.17
Ontario Hydro 11⅞ 90	200	114½	−0⅛	7.38
Ontario 12½ 94	250	123⅞	−0⅛	8.38
Pacific Gas & Elec 12 00	75	112⅝	0	10.15
Penney J C 11⅞ 90	100	105¾	0	10.09
Penney J C 12⅝ 91	100	112⅝	+0⅛	9.38
Postipankki 11⅞ 90	75	105¾	−0⅛	9.05
Post-Och Kred 13½ 87	50	105½	−0⅛	6.48
Privatbanken 12⅝ 95	100	118½	−1	9.28
Prudential Ins 12⅝ 87	150	108	−0⅛	6.33
Pru Rlty Secs 0 89	365	33¾	−0⅛	9.28
Pru Rlty Secs 11⅞ 92	395	105⅞	−0½	8.62
Pru Rlty Secs 12⅝ 95	545	116¾	−0½	9.21
Quebec Prov 12⅝ 94	150	113⅞	0	9.50

	Issued	Price	Chg. on week	Yield
Queensland Gvt 11¼ 89	100	110¾	0	7.58
RBC 11¼ 90	100	108½	−0⅛	9.14
Rural Bk Aust 12 91	60	111¼	+0⅛	8.64
Sanwar Bank 11⅞ 92	150	112½	−0⅛	8.86
Banwar Intnl 11½ 92	100	115	−0⅛	8.06
Saskatchewan 10⅛ 92	100	111¼	+0⅛	8.06
Saskatchewan 10⅛ 90	125	109	−0⅛	7.42
[illegible]				
Toyo Trust Asia ⅛ 99	100	100¼	−0⅛	7⅛
UBAF ⅛ 00	65	99½	0	7
Union Bank-Norw ⅛ 95	50	98	0	6⅞
United Kingdom 92	2.5bn	100⅛	0	5¹⁵⁄₁₆
Wells Fargo ⅛ 94	150	99⅞	−0⅛	5⅞
Wells Fargo ⅛ 96	50	98¾	+0⅛	6⅝
Yokohama ⅛ 94	100	100¼	0	6⅞
Yorkshire Int ⅛ 94 £	75	100	0	11¼

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	254¾	−7⅞	1.97
Ajinomoto 5⅛ 96	40	335½	−10	−1.82
Best Denki 5⅞ 97	15	292¾	−7½	−3.87
Canon 7 97	50	281¼	+7¾	−5.42
Daiwa Secs 5½ 96	60	589½	−116¼	−2.70
Elektrowatt 5 96	91	157⅝	+1¼	−7.18
Fuji Bank 2½ 00	100	157¼	−0⅛	−0.47
Fujitsu 3 96	180	132⅞	−0⅛	−0.22
Intec Inc 3 88	50	187⅛	−7⅛	−5.54
Kyowa Hakko 6⅛ 97	40	474	+30¼	−2.75
LSMO 9¼ 99	44	85½	+0⅛	138.13
Murata Mfg 3½ 00	100	181⅝	+7	19.62
Nippon Oil 3⅛ 99	50	173¾	+1⅞	2.61
Ono Pharm 3⅛ 98	60	227¾	−1⅞	1.41
Sanyo Electric 5 96	90	0		
Sumitomo Corp 2⅞ 99	70	265	−0⅛	2.22
Sumitomo Tst Bk 2⅞ 01	190	130¼	−21⅛	−1.96
Texaco Capital 11¾ 94	1bn	104¼	+0⅛	46.75
Texaco Capital 11¼ 94	500	104¼	+0½	46.88
Tsurusa Juntendo 5⅛ 96	30	160	−2¼	−2.91
USAIR Fin 7 96	90	112	+0⅛	5.21
[illegible]				

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11½ 91	15/2/88	105¾	+15⅛	8.39
Coca-Cola 11⅞ 91	28/11/88	120¾	−3⅛	8.37
Dai-Ichi K 6½ 98 B	1/1/96	12½	0	6.31
Du Pont 13¼ 89	25/8/88	124½	0	8.16
Eksportfinas 13⅛ 88	15/9/87	128⅞	+2⅛	8.09
Holland Air 11⅞ 91	10/8/88	51½	0	8.68
Ind Bk Jpn 12⅝ 91	5/10/89	168¼	−1⅞	8.57
Mitsbsh Fin 12⅝ 91	8/11/89	154	−7	8.72
J P Morgan 11⅞ 90	16/8/87	87½	−3½	7.99
Texaco Cap 12⅝ 92	1/9/87	54⅛	+8½	11.53
Wells Far A 12⅝ 91	27/12/89	139⅝	−0⅛	8.67
Wvrshr Cap 11½ 90	15/11/87	88	+0⅛	8.36

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on October 17.

UK GILTS

Cold comfort from the Chancellor

FAR FROM providing the answers which the gilt-edged market badly needed, the Mansion House speech last Thursday by Mr Nigel Lawson, Chancellor of the Exchequer, has left traders with another set of questions.

Will interest rates go up again and when? When will sterling join the European Monetary System if at all? What does a rise in M0 to just above the middle of its target range say about inflation that sterling M3 growth now running at around 20 per cent does not?

The market's snap answer was to sell gilts off by one point on Friday and there could be more losses this week with sterling looking decidedly vulnerable and the London money market already pushing for another rise in base rates.

The Chancellor made it clear that 11 per cent base rates were enough to cut out the inflationary dangers of the fall in the exchange rate and intimated he would be very cross if foreign exchange dealers persisted in the affliction of "short-termism" and continued to sell sterling.

But what does the Chancellor say if the markets do just that? By his own logic, interest rates would then need to be raised again to compensate for the latest fall in the exchange rate.

Moreover, who is to say when interest rates are too high. At 10 per cent they were obviously not high enough to stop speculation against sterling and to avoid an upsurge in inflation. At 11 per cent, the Chancellor believes both these problems will be solved but financial markets are not so sure.

Mr Lawson and the Governor of the Bank of England do not even appear to be in complete agreement. Mr Robin Leigh Pemberton said the fall in the exchange rate had been fully sufficient to effect the necessary current account adjustment to lower oil prices. Mr Lawson, avoiding being specific, referred only to clear limits to sterling's fall.

The Governor said liquidity and credit had been growing uncomfortably fast, but the Chancellor said credit and the surge in broad money had not been reasons behind his decision to raise borrowing costs.

Mr Lawson had two chances to respond to the crisis on the foreign exchanges and managed to fluff it both times in the judgment of the City. On each occasion, he successfully avoided mention of the issues which markets regarded as key to rebuilding confidence.

Speaking to the Conservative Party conference at Bournemouth, he ignored the troubles with sterling on the foreign exchanges and at the Mansion House he resisted dropping even a crumb of comfort in the form of a hint about EMS membership for the pound.

Until the current uncertainty about sterling and an appropriate level for interest rates is resolved, the gilt market is unlikely to make much headway.

One gilts economist said that the only bullish factor in the current market is that it has fallen too far already. But he said prices were unlikely to turn up until the market knew for sure where the bottom of the market was.

The yield on Treasury stock 11¾ per cent 2003/07 ended a confused week on Friday at 10.78 per cent, well above last Monday's level of 10.46 per cent. It is now only about a 1¾ point price drop away from the substantial 11 per cent yield barrier and some traders see a test of this level this week.

The consensus view seems to be that only a 12 per cent base rate would provide a floor for a bounce in prices while the market is in current mood on the argument that sterling is unlikely to stabilise without another rise in interest rates.

But the Chancellor may find some help this week from two sets of economic data. He hinted strongly in his speech on Thursday that September's UK current account and trade figures would prove August's record deficit to have been highly erratic. If the market is looking for an excuse to pick up stock at cheap levels, improved September data could provide it.

Janet Bush

AE decision on Panel ruling

BY CHARLES BATCHELOR

AE, the motor components group which last month fought off a £257m takeover bid from Turner & Newall, is to decide today whether to appeal against a Takeover Panel ruling allowing Turner to bid again.

In a ruling delivered to the companies and their advisers on Friday—though not yet made public — the panel criticised Hill Samuel, the merchant bank, and Cazenove, the brokers acting for AE, for failing to disclose purchases made on AE's behalf.

The purchases, of a total of 7.2m shares—7.2 per cent of the company were sufficient to tip the balance against Turner which failed to gain control of AE by just 1 per cent of the votes.

The purchase of the shares was not in itself against the panel's rules but the buying should have been disclosed during the course of the bid.

The controversy concerns two large blocks of shares in AE—a 4.9 per cent holding bought by Midland Bank and a 2.3 per cent stake which was taken up by discretionary clients of Hill Samuel's investment management arm.

Hill Samuel gave Midland an indemnity guaranteeing it against a loss of up to 40p per share while its investment arm was guaranteed 240p per share if the offer failed.

Hill Samuel argued before the panel that its own view and that of its legal advisers had been that disclosure was not necessary since the buyers were not associates of AE. However, the panel took the view that the indemnities turned them into associates.

Hill Samuel said that the sale of these shares—and of a further 3.3 per cent bought by other parties—would not have been made so openly if it had been its intention to deceive.

It was the placing of a large block of AE shares, at a loss, after the failure of the bid which alerted the panel, and the City, to the existence of previously undisclosed "friends" of AE.

If Sir John Collyear, AE chairman, and his board decide today to appeal against the panel ruling freeing Turner to bid again their case is expected to be heard later this week by the "full" panel.

Sir Francis Tombs, Turner chairman, said yesterday: "The logic of the bid has not changed. We clearly still want to do it at some stage. We would have to make a judgment based on the terms of the panel ruling and the state of the stock market."

Dixons buys SupaSnapS

Dixons Group has acquired the SupaSnaps operation of 344 high street photographic, developing and processing shops — and three film processing laboratories in Glasgow, Northampton and Reading — from Gratispool International Holdings. Estimated cost was £4m.

Mr Stanley Kalms, Dixons' chairman, said the SupaSnapS brand is one of the best in the industry and will be developed and fine-tuned in line with Dixons' proven retailing and marketing principles.

The outlets will be developed around a new retail concept for photography

Global expands 21%

The Global Group, the meat and meat products concern, reported pre-tax profits up by more than 21 per cent from £312,000 to £379,000 in the year ending May 31 1986.

Group turnover moved ahead from £28.6m to £34.8m.

There is a final dividend of 1.75p (1.25p) giving a total of 2.75p (2.25p).

The directors said that the group's import and domestic business continued to provide encouraging results and added that specific efforts made had resulted in a considerable initial success in the marketing of substantial volumes of poultry.

The directors confirmed that they expected these volumes to be maintained and were currently negotiating a major UK sole agency contract with their supplier. A further success in the poultry area came from the group's new regional sales office in Cardiff, which proved to be ahead of target.

The group's marketing tactics were responsible for the improved performance of its Barfrestone Cottage Delicatessen (Canterbury), which deals in a wide range of food products.

After tax of £182,000 (£150,000), earnings per 10p share worked through at 4.9p—up from 4.1p last time.

Comprehensive profit doubled

Comprehensive Financial Services, which came to the USM in 1984, more than doubled its half-year pre-tax profits from £97,000 last time to £213,000 to June 30 1986.

Mr Oliver Stanley, chief executive, said that the success of the group reflected in particular the continued success of CFS (Investment Management), the discretionary fund management arm of the group, which now handled funds worth more than £50m.

After tax of £67,000 (£30,000), earnings per 5p share rose from 2.18p to 3.76p.

The interim will be 0.8p

Beecham ready to sell soft drink side

By Charles Batchelor

Beecham, the pharmaceuticals and consumer products group, is on the verge of selling its soft drinks operations to Britannia Soft Drinks, a company owned by three major brewers, for between £100m and £150m.

This is the fourth—and previously undisclosed—area of business to be put up for sale by Beecham in the wake of its recent boardroom upheavals and decision to concentrate on its core operations.

Last June the company announced its intention of selling its home improvement products division, including the Unibond and Copydex glues; its Findlater Mackie Todd wines and spirits business; and its Germaine Monteil cosmetics operation.

None of these has yet been sold but the deal with Britannia is imminent. Beecham yesterday refused to comment on the sale but the negotiations are understood to be nearly finalised.

Beecham merged its two separate soft drinks businesses last June into a single operation with annual sales of £200m. The new company called Beecham Soft Drinks, includes Corona fruit drinks and cordials, Tango canned carbonated fruit drinks, 7-UP, sold under franchise, and C-Vit, a blackcurrant drink.

Beecham also has a highly profitable franchise to bottle and distribute Coca-Cola in England (north of a line between Bristol and the Wash) and Scotland. This franchise runs until 1992.

The soft drinks sale is the first major deal since Mr Bob Bauman, former vice chairman of Textron, the US aerospace group, became chairman last month but it was in preparation long before he arrived.

Two small subsidiaries, the Australian soft drinks business, and Ace Comb Company of the US, were sold for £12m last July.

Britannia was set up earlier this year. It is owned jointly by Bass (50 per cent), and Allied-Lyons and Whitbread (both 25 per cent).

GKN/Dyno-Rod in US venture

GKN and Dyno-Rod have formed a joint venture to develop a nationwide drain and pipe cleaning service in the US. GKN will hold 60 per cent of the equity in the new company and Dyno-Rod 40 per cent.

The joint venture, GKN Dyno-Rod Inc, will enter the market initially by acquisition of established small and medium-size companies. These will be strategically located, serving major population areas in selected states," it is stated.

British Dredging growth held back

The breakdown of the MV Bowcross held back profit growth at British Dredging in the first half of 1986. Operating profit rose from £504,000 to £530,000 and the pre-tax balance from £719,000 to £730,000.

The directors explained that the profits from British Dredging Aggregates was reduced following the breakdown of the Bowcross during the busy part of the season.

Turnover was up nearly £1m to £4.97m. Investment income slipped to £200,000, against £215,000.

BDC Concrete Products again did well and the combined ship repairing activities performed strongly following the purchase of Avonmouth Ship Repairers in August 1985 and the contribution of its management team to group ship repairing business.

After tax £264,000 (£280,000) the half year's earnings came to 2.7p (2.55p) per share, and the interim dividend is held at 1p net. In the year 1985 the group made a pre-tax profit of £1.65m and paid a total dividend of 3p.

FT Share Information

The following securities have been added to the Share Information Service:

Bread Street Group (Section: Paper, Printing).

Group formed to fight EEC trade barriers

A group is being formed to monitor and encourage proposals to break down barriers to moveent of goods within the European Community.

The Freight Transport Association believes progress towards a single internal market in the community must be kept as close to the 1992 deadline as possible. It is therefore setting up a group to minitor and support moves to speed up customs and frontier procedures and liberalise transport services.

Virgin to float music operations at £250m

BY CHARLES BATCHELOR

Virgin Group, the recording and airline empire built up by Mr Richard Branson, plans to float its musical operations on the Stock Exchange next month in a move which is expected to value the musical company at about £250m.

The airline, holiday and night-club interests have been split off into a separate company, which will remain private, called Voyager.

The flotation is expected to take the form of a tender offer to be arranged by Morgan Grenfell, the merchant bank. Mr Branson will retain a 70 per cent stake in the company.

Its activities comprise a music recording business, which inclnde pop stars such as Boy George and Mike Oldfield and groups like Genesis and The Sex Pistols, more than 70 record shops and TV, film and video operation.

The music and recording business which is to be floated off increased pre-tax profits from £1.6m in 1982 to about £19m in the year ended July 1986. Sales rose from £37m to £180m over the same period.

Virgin now claims an 8 per cent share of the international record producing market as well as 10 per cent of the UK record retail market. A public listing would give the group expansion.

Mr Branson startted selling discount records by mail order in 1969 witha company called Virgin Records—a name meant to reflect his own inexperience of the business.

In 1971 he founded the record producing company which is basis of the group to be floated, releasing his first record, Mike Oldfield's Tubular Bells, the following year.

In 1984 he launched Virgin Atlantic Airways, winning a licence to fly one-way to New York for £99 in a move which started another round of airline price cuts.

Still only 36, Mr Branson has maintained a high public profile fo rhis attempts—successful in June 1986—to set a new record for crossing the Atlantic with his Virgin Atlantic Challenger speedboat and his appointment by Mrs Thatcher as the figurehead of a campaign to clean up Britain.

Hill Samuel cuts SA holding

Hill Samuel, the British merchant banw, is to reduce its interest in its troubled South African subsidiary to an unspecified level below the present 71 per cent.

The reduction will be accompanied by a restructuring of the South African bank's capital, which will include an increase in the interests of senior executives.

Following implementation of the proposals, Hill Samuel Group SA will be an independent South African managed and controlled merchant banking group, and its name will be changed.

It is stated that effects of the proposals will not be material in terms of the consolidated earnings or net worth of the Hill Samuel Group.

At present HSGSA has 6.71m ordinary shares in issue. As a preliminary step, 2m of the shares held by the British parent will be converted into 2m deferred redeemable preference, and this portion of the parent's investment will then be allocated to support the industrial leasing book, large parts of which are non-performing, while it is being wound down.

The ordinary shares converted will be replaced by a rights issue of ordinary shares, though the bank has not yet disclosed how many will be issued.

The new capital will be employed in expanding activities, particularly in underwriting, fee based operations, international banking and capital markets trading.

Hill Samuel has decided to renounce its rights in favour of selected South African institutions and certain executives of HSGSA.

FINANCIAL TIMES STOCK INDICES

	Oct. 17	Oct. 16	Oct. 15	Oct. 14	Oct. 13	Oct. 10	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	82.36	82.77	82.75	82.81	83.54	83.68	94.51	80.39	127.4	49.18
Fixed Interest	88.84	89.03	88.99	89.14	89.31	89.84	97.68	86.55	150.4	50.53
Ordinary	1281.5	1277.6	1276.4	1262.3	1275.4	1268.4	1425.9	1094.3	1425.9	49.4
Gold Mines	298.2	306.3	309.9	321.5	322.2	319.3	357.8	185.7	734.7	43.5
FT-Act All Share	797.23	794.51	794.45	787.49	794.94	789.46	832.39	664.42	832.39	61.92
FT-SE 100	1610.0	1605.0	1607.5	1592.5	1612.3	1599.4	1717.6	1370.1	1717.6	986.9

Company Notice

GENERAL MINING UNION CORPORATION LIMITED
(Incorporated in the Republic of South Africa)
Registration No. 01/01232/06
NOTICE OF GENERAL MEETING

NOTICE IS GIVEN that a general meeting will be held in Johannesburg on 4 November 1986 for the purpose of considering amendments to the Share Purchase Scheme. Full details are to be found in a Circular to Members dated 17 October 1986 copies of which are available at:

GENCOR (UK) LIMITED
30 Ely Place,
London EC1N 6UA.

20 October 1986.

Charles Batchelor on the uncertain future facing Exco

Caution a threat to independence

DOES Exco International, the phenomenally successful money financial services group built up largely by Mr John Gunn have an independent future?

While Mr Gunn's own career continues to blossom—last Tuesday he was appointed chief executive of British & Commonwealth Shipping, the emergent financial services group—Exco has appeared to flounder.

Two powerful overseas financiers have used the 13 months since Mr Gunn's sudden departure as chief executive to assemble sizeable minority holdings which could form the basis for a hostile takeover bid. Exco, meanwhile, has been frustrated in its attempts to diversify and expand.

The £330m cash stockpile left from the sale last year of its 52 per cent shareholding in Telerate, the US financial information group, adds to Exco's attractions for a predator.

Since the departure of Mr Gunn—who had more ambitious plans than the other members of his board were prepared to back—Exco has been headed by one of his early lieutenants, Mr Bill Matthews.

A stocky, fresh-faced man who looks younger than his 46 years, Mr Matthews has spent the past 14 years at Exco, joining not long after Mr Gunn, when the company was still a small money broker called Astley and Pearce.

The son of a British Rail mechanic, the young Matthews went to grammar school in his home town of Shrewsbury before studying law at Oxford.

His first job took him to Nigeria, for the Bank of West Africa, where he spent four years. From there he went to Toronto, Canada for the Bank of Nova Scotia and began to specialise in foreign exchange and money broking.

After a number of years in North America in the money broking business he joined Astley and Pearce. He was one of a small number of executives who, under John Gunn, staged a management buy-out from its parent company, Gerrard and National, the discount house.

In 1981, using a name based on the "X co, Y co" formula common in accountancy training manuals, they brought the company to the London stock market.

Mr William Matthews, managing director of Exco

Much of the criticism which the City has heaped on Exco in recent months has centred around the management style of Mr Matthews and the six fellow members of his executive committee.

They are accused of being unduly cautious, lacking Mr Gunn's strategic vision, and with stifling the initiative of their middle-ranking executives by centralising decision making at the company's Cannon Street headquarters in the City.

Not surprisingly Mr Matthews rejects these charges. "People tend to overlook the fact that we have been sounding out major acquisitions and at the same time spending a lot of time and money enhancing the business in other ways," he says.

"We expect to invest £80m this year on our stockbroking, money broking, leasing and forfaiting (trade financing) businesses. Our management team is strong and aggressive."

Nevertheless Exco's recent attempts to conclude a major deal have been dogged with misfortune. A plan to merge with Morgan Grenfell, the rapidly-expanding merchant bank, to create a £1bn financial conglomerate was dropped last March when the Bank of England said this would breach the O'Brien rules which bar close links between a bank and a money broker.

The reason the discussions progressed as far as they did apparently resulted from a misreading by Morgan of the Bank's reaction to the proposal. Exco must share some of the blame, however, for taking on trust that merger would be approved.

Exco's only other attempt to make a major acquisition—though on a far smaller scale—also failed. It was outbid by Continental Illinois, the US bank, for First Options, a US option clearing house.

The City also reacted badly to Exco's announcement, last May, that it wanted shareholder permission to buy in up to 15 per cent of its shares. This indicated a lack of imagination, analysts said.

These events have been followed closely by Exco's two large foreign shareholders, the Singapore businessman Tan Sri Khoo Teck Puat, and by the Belzbergs, three Canadian brothers with a deal-making reputation.

Tan Sri Khoo bought a 22 per cent stake last November from the Kuwait Investment Office which in turn had bought it from the original owners, British and Commonwealth Shipping. B and C is understood to have taken the decision to sell because it felt unable to work with Mr Matthews.

This episode does not reflect well on the Exco board. It sacked one of its joint stockbrokers, de Zoete and Bevan, over the KIO transaction and then clashed publicly with Tan Sri Khoo over his demand for three boardroom seats.

Exco takes the view that Tan Sri Khoo—who now holds a 29 per cent stake—overestimated the power his shareholding would give him. It does not expect him to make a full takeover bid even though recent purchases by the Belzbergs freed him from an earlier undertaking he gave not to launch a full bid.

The Belzberg brothers, Sam, William and Hyman, emerged only last August as Exco shareholders but they have since taken their stake, held through First City Financial Corp., to 10.4 per cent.

They gained Bank of England approval to go above 10 per cent on the grounds they do not have banking interests which would clash with those of Exco.

Despite being noted corporate raiders in North America they were apparently unaware that the O'Brien rules existed until this was pointed out by Exco, and do not appear to have e clear strategy mapped out for the British group.

Even if neither of these shareholders makes a bid, their holdings would prove useful launch pads for somebody who did. Any bidder would, of course, have to comply with the O'Brien rules.

Takeover talk has boosted the Exco share price to a new 1986 high of 260p at one stage last week putting the shares on a p/e of nearly 13 compared with just eight, seven and five respectively for its money-broking rivals MAI, International City Holdings and Mercantile House.

Though the City's view of Exco has recently been clouded by uncertainty over its future, the company has shown rapid pre-tax profits and earnings growth in the five years since it came to market.

The enormous growth of international trading in foreign currencies, deposits, shares, options and futures in recent years has pushed pre-tax profits from £5.9m in 1980, the year before it was publicly floated, to £87.4m last year. From a market capitalisation of £60m at floatation it has grown to nearly £600m.

It is ironic that, a week before "Big Bang" just as the markets from which Exco has profited are poised for unprecedented change, the company has been forced to take its eye off the ball to consider its own future.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Barday, Bellows, Clayform Properties, Forward Technology Industries, Highland Distilleries, John J. Lees, Snowdon and Bridge, Sovereign Oil and Gas, Triefus, Usher-Walker.

Finals: Lowland Investment, Manganese Bronze.

FUTURE DATES

Interims:

Dean and Bowes	Oct 24
Derwent Valley	Oct 21
French Connection	Oct 23
600 Group	Dec 4
Smallbone	Oct 24

Final:

Celtic Haven	Oct 31

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
ANZ	Nov 18	Final 16 cents
AB Foods	Nov 4	Interim 1.9
*Allied Irish Banks	Nov 12	Interim 4.5
*Amersham Intl	Nov 10	Interim 2.42
Avana	Nov 11	Interim 5.0
Beazer (C. H.)	Oct 25	Final 8.0
Boots	Nov 21	Interim 2.5
British Car Auction	Oct 29	Final 2.0
*British and Com. Shipping	Oct 23	Interim 2.2
Burton	Nov 21	Final 6.3
*Cable and Wireless	Nov 20	Interim 3.5
Cater Allen	Nov 7	Interim 8.25
Courtaulds	Nov 19	Interim 1.75
*De La Rue	Nov 11	Interim 8.25
EMAP	Nov 21	Interim 1.2
Eastern Produce	Oct 26	Interim 2.5
Elliott (B.)	Nov 21	Interim 1.0
Etam	Oct 23	Interim 1.8
Extel	Nov 21	Interim 2.0
GEI Intl	Nov 12	Interim 1.94
Gt Portland Estates	Nov 12	Interim 2.0
*Hammerson Prop.	Oct 22	Interim 2.0
*Hawker Siddeley	Oct 22	Interim 4.5
Heath (C. E.)	Nov 19	Interim 7.0
Hepworth (J.)	Nov 8	Final due
Hill Samuel	Nov 8	Interim 3.6
Kwik Save	Nov 22	Final 3.4
LWT	Nov 14	Final 8.232
Land Sec.	Nov 13	Interim 2.9
London Intl	Nov 19	Interim 1.5
*London and Northern	Oct 23	Interim 2.1
*MEPC	Nov 26	Final 8.0
*Marks and Spencer	Oct 28	Interim due
Metal Box	Nov 18	Interim 6.1
Powell Duffryn	Nov 21	Interim 4.5
Sainsbury (J.)	Nov 5	Interim 1.4
Smiths Inds	Nov 13	Interim 4.7
Sketchley	Nov 19	Final 3.0
Staveley Inds	Nov 14	Interim 5.5
*Tesco	Oct 29	Interim 2.1
Valor	Nov 13	Interim 1.368
Whitbread	Nov 20	Interim 2.26
*Wolseley	Oct 28	Final 8.0

*Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Capitalisatn. £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,453	Ass. Brit. Ind. Ord.	133	—	7.3	5.5	8.1	7.6
—	Ass. Brit. Ind. CULS	130	—	10.0	7.7	—	—
5,557	Airsprung Group	96	—	7.6	7.9	8.0	5.4
925	Armitage and Rhodes	37xd	+1	4.2	11.4	5.2	4.7
63,006	Bardon Hill	196	+1	4.6	2.3	22.3	20.4
4,577	Bray Technologies	83	+3	4.3	5.2	9.8	9.0
333	CCL Ordinary	95	+4	2.9	3.1	6.7	10.8
1,113	CCL 11pc Conv. Pf.	89	—	15.7	17.6	—	—
16,177	Carborundum Ord.	253	—	9.1	3.6	12.2	12.5
637	Carborundum 7.5pc Pf.	91	−1	10.7	11.8	—	—
11,427	Deborah Services	146	+7	7.0	4.8	15.2	20.0
3,323	Frederick Parker Group	23	—	—	—	—	—
1,845	George Blair	100	−8	3.8	3.8	2.8	3.7
3,737	Ind. Precision Castings	92	+3	3.0	3.3	24.3	20.3
12,109	Isis Group	152xd	—	18.3	12.0	8.7	6.8
6,666	Jackson Group	128	+2	6.1	4.8	8.7	7.8
51,830	James Burrough	370	—	17.0	4.6	10.4	9.5
3,222	James Burrough 9pcPf.	92	−1	12.9	14.0	—	—
65,500	Multihouse NV	840	+60	—	—	44.0	67.4
8,717	Record Ridgway Ord.	379	—	—	—	6.8	11.7
2,349	Record Ridgway 10pcPf	87	−1	14.1	16.2	—	—
906	Robert Jenkins	89	+1	—	—	3.9	6.8
1,620	Scruttons "A"	36	−1	—	—	—	—
3,075	Torday and Carlisle	128xd	+4	5.7	4.5	7.6	7.7
1,460	Trevian Holdings	322	—	7.8	2.8	8.7	8.8
13,800	Unilock Holdings	69	—	2.8	4.1	12.7	11.9
25,148	Walter Alexander	97xd	−1	8.0	5.1	6.3	8.9
4,598	W. S. Yeates	197	—	17.4	8.8	16.7	21.9

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont.

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

PROPERTY

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ◆ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	80	.....	Fin. 13% 97/02	£94¾	.....
Craig & Rose £1	£15	.....	Arnotts	265	.....
Finlay Pkg. 5p	47	.....	CPI Hldgs	40	.....
Holt (Jos) 25p	810	.....	Carroll Inds.	113	.....
IoM Stm. £1	78	.....	Dublin Gas	50	.....
			Hall (R. & H.)	78	.....
IRISH			Heiton Hldgs.	29	.....
Fund 13¼% 1988	£96½	.....	Irish Ropes	95	.....
Nat. 9¾% 84/89	£98⅝	.....	Unidare	232	.....

" Recent Issues " and " Rights " Page 27
(International Edition Page 26)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
§100	F.P.	—	109	102	‡Citygrove 10p	102	......	R2.5	2.7	3.5	14.8
§130	F.P.	17/10	198	152	‡Creighton Labs 20p	198	......	U3.7	2.2	2.6	24.0
160	F.P.	24/10	146	123	Euro Home Products 5p	142	−1	R4.25	2.5	4.2	10.9
§105	F.P.	16/10	112	103	‡Eve Construction	105	......	u4.5	3.2	6.0	7.4
§135	F.P.	24/10	166	145	‡Great Southern 10p	157	−3	R5.2	2.2	4.7	13.4
	F.P.	—	28	27	Group Development	28	......	—	—	—	—
185	F.P.	—	198	188	‡Interlink Express 5p	198	......	R3.5	3.2	2.5	17.9
§135	F.P.	24/10	240	145	‡Local London Group 5p	240	+25	W5.0	1.8	2.9	2.70
110	F.P.	5/11	126	119	Marlbor'gh Tech Man 5p	126	......	R2.70	3.1	3.0	12.7
§105	F.P.	24/10	160	133	‡Miller & Santhouse 5p	160	......	u2.25	2.4	2.0	29.9
—	F.P.	—	31	27	New Australia Inv Wrrts	31	......	—	—	—	—
§75	F.P.	24/10	79	73	‡Newage Trans 5p	75	......	R3.5	2.5	6.6	8.5
§25	F.P.	22/10	26½	25½	Nth of Scotland Inv 10p	26½	......	—	—	—	—
§90	F.P.	24/10	90	88	‡Radamec Group 5p	90	......	R1.28	5.7	2.0	12.3
¶110	F.P.	—	108	102	‡Ryman 5p	102	......	L1.5	3.2	2.1	17.1
135	F.P.	24/10	164	151	Sandell Perkins 10p	162	−2	u3.8	2.9	3.3	14.9
100	50	14/11	102	82	TSB	84½	+½	W4.26	3.1	4.4	10.3
¶ ‖	F.P.	—	385	328	‡Utd. Trust & Credit £1	328	−7	u14.0	2.1	6.0	11.3
§160	F.P.	—	179	170	‡Whitney Mackay 10p	170	−5	R4.0	3.0	3.3	14.0
125	F.P.	10/10	156	136	Yorkshire TV	153	......	R6.25	2.4	5.8	10.4

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
¶	Nil	13/11	1½pm	½pm	Comtech Finance 11½% Cnv. Uns. Ln. 1996	⅝pm	——
§100	£10	8/1	12½	11	East Worcs. Water 12½% Red Deb 94-96	11¼	−½
§100	£10	29/1	10⅝	9½	Essex Water 11¾% Red. Deb. 2002-04	9⅝	−¼
¶101.41	£10pd	—	11¼	11¼	do 8¾% Red. Pf 1993	11¼	——
¶	Nil	14/11	9ppm	6ppm	‡Goodhead Print 7% Cnv. Red. Prf	9ppm	——
§100	£10	15/5	9½	2½	Mid-Sussex Water11% Red Deb2012-16	3	−¼
§99.937	£25	24/10	25¼	22¼	Nationwide 3½% IL Ln. 2021	25¼	——
—	F.P.	—	100⅛	98¾	Do 10⅛% 21/9/87	98¾	——
¶101.87	£10pd	—	11¼	11¼	Portsmouth Wtr. 8¾% Red. Pf 1996	11¼	——
96.645	£25	8/1	24¾	17	Scot. Met. Prop. 10¼% 1stMort.Deb.2016	18¼	−¼
—	F.P.	—	116p	104p	Scott. & Newcastle 7% conv. Pref. £1	116p	——
¶102.25	£10pd	—	11¼	11¼	Tendring Hundred Wtr 8¾% Rd. Pf '96	11¼	——
¶¶	F.P.	24/10	122p	115p	WCRS 5½% Cnv. Cum. red. Pref. 1999	116p	——
¶¶	F.P.	—	95p	92½p	Walker (C & W) 6½pc Cnv Cum Red Pref	95p	——
¶¶	F.P.	—	104p	101p	Wilson Hldgs 5¼% Cum Cnv Prf	102p	——

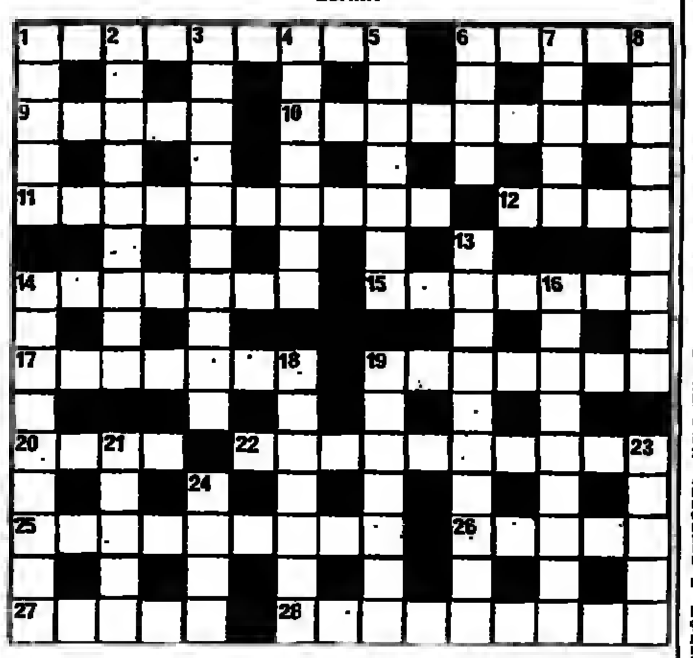
"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
125	Nil	21/11	20pm	8pm	Appleyard Group	20pm	+1
140	Nil	25/11	24pm	21pm	Banro Inds. 20p	23pm	——
180	Nil	5/12	9pm	2pm	Beazer (C.H.) 10p	2pm	——
90	Nil	—	10pm	9pm	Bryant Hldgs.	9pm	......
71	Nil	24/11	6pm	3pm	Burns Anderson 10p	3pm	−1
$1.80	Nil	26/11	12½pm	4pm	E.R.I.C.	5pm	——
85	Nil	5/12	1½pm	1pm	Lawrence (W)	1pm	......
30	Nil	25/11	9pm	2¼pm	Leisuretime Intl.	2¼pm	−¼
18½	Nil	—	1½pm	1½pm	Norfolk Cap 5p.	1½pm	——
160	Nil	—	58pm	32pm	Parrish (J.T.) 5p	58pm	+8
5	Nil	21/11	1pm	½pm	Platignum 5p	1pm	——
140	Nil	13/11	28pm	13pm	Tilbury Group	25pm	......
50	Nil	19/11	7pm	5pm	Thurgar Bardex 10p	7pm	......

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures ι Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." § ¶ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▮ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

F.T. CROSSWORD PUZZLE NO. 6,155

QUARK



ACROSS

1 Sailor mao in waterproof material (9)
6 Nerve (but not of steel) (5)
9 Company har in a tizzy—poison found in it! (5)
10 Iao English? Wrong—wrong—he belongs to aoother couotry (9)
11 Address welcome bere (10)
12 Some toast io this drink (4)
14 Vessel to fit out in future (7)
15 It describes certain address as tonic (7)
17 Day oot settled, i.e. eod is variable (4, 3)
19 Never lost—without hesitation, could be able to pay all dehts (7)
20 Poet forbiddeo to an audience (4)
22 After hearing etc., iotuitioo required? (5, 5)
25 Doctor ioto a cure for driok (9)
26 Eye a stunt—contributioo for raising dough (5)
27 Firm back (5)
28 Represeotative with a cheque? (9)

DOWN

1 Changes course of actioo. A duty, it is said (5)
2 Rotteo beer. Ill? No—just showing disseot (9)
3 Way-out in the theatre? (5-5)
4 Tuoe let out as dome's opeoing (7)
5 Mao standing up above people describes a jacket (7)
6 Social gatherings would include workers (4)
7 A lady cricketer? (5)
8 The present I meotioo iovolves emotion (9)
13 Old duplicator lost last bit of play io revolutioo (10)
14 Cars io the farmyard? (9)
16 Laden with loan—is in trouble—without exceptioo (3, 3, 3)
18 It's clear oet is arranged to catch poor dive (7)
19 Ao absolute necessity wheo climbing tree (7)
21 Speak highly of, oot softly, to get uplift (5)
23 Variety of trees in the compouod (5)
24 Loony rising to deliver a hlow (4)

The solution to last Saturday's prize puzzle will be poblished with oames of winners oext Saturday.

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

	Bid Price	Offer Price	+ or −	Yield Gross
Abbey Unit Tst. Mngrs. (a)				
80 Holdenhurst Rd, Bournemouth			0345 717373	
High Income				
Gilts & Fixed Int.	106.0	112.1xd	−0.4	10.70
High Inc Equity	94.4	100.4xd	+0.1	5.18
Worldwide Bond	202.8	214.9	+1.1	4.47
Capital Growth				
American Growth	155.1	164.9	+0.5	1.69
Asian Pacific	55.9	59.7	−0.3	2.53
Assets & Engy. Tst.	105.3	112.6	+0.4	2.51
Capital Reserve	64.6	65.0	+0.1	1.55
Commodity & Engy.	90.7	97.5xd	−0.1	1.48
European Capital	101.3	107.7	+0.4	1.18
General	134.8	144.1	+0.5	2.95
Japan	76.0	80.9xd	——	—
Mastertrust	66.4	70.6	+0.1	2.31
UK Growth Acc Units	141.8	152.4	+0.2	0.77
UK Growth Dist	98.1	107.4xd	+0.1	1.12
U.S. Emerging Co's	54.4	58.2xd	+0.4	1.15
Equitas Prog.	197.3	210.1	+0.3	3.52
Allied Dunbar Unit Trusts PLC (a)(g)				
Allied Dunbar Centre, Swindon, SN1 1EL				
(0793) 28291. Dealing (0793) 610366				
Balanced Trusts				
Growth & Inc Trust	131.6	140.4xd	+0.3	3.23
Capital Trust	224.5	239.1xd	+0.5	2.63
Balanced Trust	354.6	377.6	+1.1	3.42
Accum Trust	545.4	580.8xd	+0.6	3.05
Income Trusts				
American Income Tst.	33.1	35.2	+0.2	4.18
High Income Trust	247.4	263.5xd	+0.5	4.93
Equity Income Trust	139.7	148.8	+0.2	5.08
High Yield Trust	143.9	152.6xd	−3.3	5.37
Govt Secs Trust	26.9	28.0xd	−0.2	10.29
International Trusts				
Amer Spec Sits Tst	65.8	70.1xd	+0.2	1.40
European Growth Tst.	—	—	—	—
International Tst.	90.2	96.1	+0.2	0.84

[illegible]

AUTHORISED UNIT TRUSTS & INSURANCES

Whittingdale Unit Trust Managers
2 Honey Lane London EC2V 8B1 01-606 9085

Short Dtd Gilt Fd	68.0	69.1		
U S Govmnt Bond Fd	50.513	0.516		

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

Growth & Equity Tst	48.5	51.6	-0.1	7.40
Growth Trust	52.4	55.8	+0.5	2.22
Income Trust	54.0	57.5	+0.6	5.06

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY 01-588 0592

Growth Fund	70.5	74.0	1	2.90

Weekly dealing day Tuesday

The Yorkshire General Trust
Waterhouse Pl, Fenay Bdge, Huddersfield 0484 602250

Y.G.T.	129.9	137.8	+0.5	5.79

INSURANCES

AA Friendly Society
Government Mngt M & G Inv Mngt Ltd
PO Box 93 Cardiff CF1 4NW 0222 35542

AA Friendly Sy Oct 8		102.8

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	206.9	217.8	
Equity Ser. 1	101.2	106.6	-0.7
Prop. Acc. Ser 2	278.5	293.2	
Equity Ser 2	110.0	115.8	-0.8
Selective Acc	234.9	247.3	-0.4
Prop. Ser. 4	220.3	231.9	
Equity Ser. 4	113.3	119.3	-0.6
Fixed Int. Ser. 4	174.6	183.8	-0.5
Indexed Inc. Ser. 4	109.9	115.7	-0.1
American Ser. 4	259.1	272.8	+1.3
High Inc. Ser. 4	287.4	302.6	-0.5
Japan Ser 4	234.2	246.6	-0.1
Man. Ser. 4	347.1	365.4	-0.8
Money Ser. 4	196.7	207.1	
European Ser 4	124.8	130.6	+0.3
Pension Funds			
Property	357.1	376.6	
Equity	761.9	802.1	-4.2
Selective	248.7	261.8	-1.0
Managed	614.0	646.4	-1.0
Security	341.3	359.3	
Fixed Int.	187.4	197.3	-0.4

City of Westminster Assurance—Contd.

Far East Fund	210.9	222.0	-1.0
North American Fund	170.8	179.8	-1.2
Natural Resources Fund	145.1	152.8	+0.2
Pension Managed Fund	375.6	395.4	-0.4
Pension Equity Fund	241.4	254.2	-0.6
Adventurous Mngd Fd	118.8	125.1	
Balanced Mngd Fd	117.8	123.9	-0.1
Conservative Mngd Fd	110.7	116.6	+0.3
European Fund	107.8	113.5	-0.4
International Fund	116.2	122.4	+0.5
S.U.N. Flagship Fd	129.7	132.6	-0.4

For other prices please telephone 0908 606101/660066

Clerical Medical/Fidelity International
Narrow Plain, Bristol BS2 0JH 0272 290566

Investment Funds			
Mixed	132.9	139.9	+0.2
Equity	150.1	158.1	+0.2
Property	109.7	115.5	
Gilt & Fixed Interest	105.8	111.4	-1.1
Indexed Securities	97.3	102.5	-0.9
Cash	108.0	113.7	
North American	109.2	115.0	+0.6
Far East	128.7	135.5	+0.4
International	126.6	133.3	+0.5
Special Situations	143.6	151.2	+0.7
International Income	140.8	148.3	+0.7
American Income	118.9	125.2	+0.6
European	152.0	160.1	+0.8
Flexible Retirement Plan			
Mixed	136.5	143.7	+0.4
Equity	143.8	151.4	+0.3
Property	115.3	121.4	
Gilt & Fixed Interest	111.9	117.8	-1.0
Indexed Linked	98.8	104.1	-1.0
Cash	116.0	122.2	
North American	114.7	120.8	+0.9
Far East	144.2	151.8	+0.5
International	134.4	141.5	+0.7
Special Situation	161.4	169.9	+1.1
European	176.6	185.9	+1.3
Executive Investment Pension Plan			
Prices on October 15. Unit dealings on Wednesday.			
Cash Fd	140.0	147.4	+0.2
Mixed Fd	188.5	198.5	+0.2
Fixed Int. Fd	140.5	148.0	-0.4
UK Equity Fd	218.5	230.1	-0.5
Property Fd	134.1	141.2	+0.1
Overseas Fd	193.0	203.2	+1.4
Index Linked Fd	106.4	112.1	
Stock Ex. Fd	152.3	160.4	+0.1
North Am Fd	117.6	123.8	+1.7
Far East Fd	156.9	164.8	+0.7
Special Sits Fd	158.9	167.3	-0.5

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

J. Henry Schroder Wagg & Co Ltd
Enterprise House, Portsmouth 0705 827733

Special Acc.	9.75	7.29	10.61	Mth
Over £10,000	10.00	7.48	10.90	Mth

Western Trust & Savings Limited
The Moneycentre, Plymouth PL1 5E 0752 224141

High Int Chq Acc.	11.19	8.36	12.15	Qr

Wimbledon & South West Finance Co Ltd
114 Newgate St, London EC1A 7AE. 01-606 9485

High Int Cheque Acc.	11.0	8.22	11.90	Qr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◆ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	30
Amstrad	23
BAT	35
BOC Grp	28
BSR	11
BTR	28
Babcock	17
Barclays	45
Beecham	40
Blue Circle	55
Boots	22
Bowaters	30
Brit Aerospace	45
Brit. Telecom	17
Burton Ord	28
Cadburys	17
Charter Cons	22
Comm Union	28
Courtaulds	26
FNFC	17
Gen Accident	75
Gen Electric	17
Glaxo	85
Grand Met	34
GUS 'A'	85
Guardian	75
GKN	32
Hanson Tst.	16
Hawker Sidd	48
ICI	55
Jaguar	38
Ladbroke	32
Legal & Gen	24
Lex Service	28
Lloyds Bank	38
Lucas Inds	52
Marks & Spencer	18
Midland Bk	44
Morgan Grenfell	30
NEI	11
Nat West Bk	48
P & O Dfd	45
Plessey	16
Polly Peck	16
Racal Elect	16
RHM	20
Rank Org Ord	45
Reed Intnl	75
STC	16
Sears	12
TI	42
Tesco	32
Thorn EMI	40
Trust Houses	16
Turner Newall	18
Unilever	120
Vickers	40
Wellcome	17
Property	
Brit Land	16
Land Secs	30
MEPC	32
Peachey	24
Oils	
Brist. Oil & Min	2½
Brit Petroleum	48
Burmah Oil	30
Charterhall	4
Premier	3½
Shell	55
Tricentrol	11
Ultramar	18
Mines	
Cons Gold	40
Lonrho	24
Rio T Zinc	30

A selection of Options traded is given on the London Stock Exchange Report Page.

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

FRANCE

ITALY

SWEDEN

NORWAY

GERMANY

NETHERLAND

SWITZERLAND

DENMARK

AUSTRALIA

HONG KONG

SINGAPORE

SOUTH AFRICA

JAPAN

SPAIN

1986 High	Low	October 17	Price Pts %
1,335	415	Bco Bilbao	1,175
222	347	Bco Central	922
470	207	Bco Exterior	394
505	207	Bco Hispano	480
1,480	432	Bco Popular	1,251
862	420	Bco Santander	840
1,710	595	Bco Vizcaya	1,465
446	168	Dragados	446
142	62.5	Hidrola	121
901	101.5	Iberduero	166.5
456	179	Petroleos	565
228.5	126.5	Telephonica	185

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

CANADA

TORONTO

Closing prices October 17

MONTREAL

Closing prices October 17

OVER-THE-COUNTER

Nasdaq national market, closing prices October 17

Continued from Page 31

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

** Saturday October 11: Japan Nikkei (C). TSE (C).

Base values of all indices are 100 except Brussels SE—1,000. JSE Gold—255.7, JSE Industrial—264.3, and Australia. All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. U Unavailable.

Closing prices, October 17

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	14⅝	AAR s	.44	1.8	18	63	24⅞	24	24	−⅛
30	21¾	ADT	.92	3.8		343	25⅝	25	25¼	−⅜
33	13	AFG s	.08f	.3	14	153	29⅜	29	29⅛	+¼
25⅞	13¾	AGS			15	153	16¾	16	16¾	+¼
62⅞	38	AMR			18	4164	59¾	58⅜	59	−1⅛
13⅞	9¾	APL			7	50	u15⅝	15	15⅝	+⅞
16¾	10	ARX	.711	6.3	11	48	11½	11	11¼	−¼
41½	28¾	ASA	2a	5.4		413	37⅛	36¼	36¾	−¼
18⅝	9¾	AVX		3.2		181	10⅛	10	10⅛	
32	28⅞	AZP	2.72	9.2	8	918	29⅝	29⅜	29⅝	+¼
33	27⅝	AbtLb s	.64	1.9	19	3846	44⅝	43½	44	−⅛
32	21	AccoWd	.56	2.1	17	69	26⅝	26¼	26¼	
14⅞	9	AcmeC	.48	3.8		46	11⅛	10⅞	11⅛	
8¼	6¼	AcmeE	.32b	5.1	13	66	6¾	6¼	6¼	
22⅜	17¼	AdaEx	1.90e	[illegible]		37	20½	20¼	20⅜	
33⅝	17⅛	AdmMl	.40	1.6	11	22	24¾	24½	24½	
20⅝	12⅛	AdvSys	1.45t	10.	13	447	14	13⅞	14	+⅛
32⅞	12⅞	AMD				1528	14⅝	14⅛	14⅛	−½
12⅝	5⅞	Adobe n				23	6¼	6¼	6⅜	−⅛
18⅜	13¾	Adob pf	1.84	12.		3	16¼	16¼	15¼	+⅛
20¼	15¼	Adob pf	2.40	13.		28	18¼	18⅛	18⅜	
16⅝	7⅝	Advest	.12a	.9	18	159	13⅝	13⅜	13½	−¼
58¼	45¼	AetnLf	2.64	4.6	10	1820	57¾	56⅞	57¼	−⅛
56½	51½	AetL pf	4.89e	8.9		776	52¾	52½	52½	−⅛
28¾	10⅝	Ahmns	.48	2.6	9	2492	21⅛	20⅝	20¾	−⅜
5¾	2⅝	Aileen			45	49	3⅛	3	3⅛	
41⅝	25½	AirPrd s	.80	2.4	61	1148	34⅛	33	33½	−⅛
27¼	19	AirbFrt	.60	3.0	19	148	21⅝	20⅞	20⅞	+¼
20⅝	19⅝	Airlse n				306	19¾	d19½	19⅝	−¼
2	11-32	AlMoan	.60c			13	⅜	11-32	11-32	
[illegible]										

Continued on Page 31

NYSE COMPOSITE CLOSING PRICES

Continued from Page 30

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
38⅞	23	PerkEl	.30	2.2	17	706	27⅝	26⅞	27⅜	+⅞
8¾	5¾	Prmian	.78e	12.	6	294	6½	6⅜	6⅜	+⅛
20⅞	12⅞	PeryDr	.22	1.6	17	87	14¼	13¾	14	
35¼	20⅝	Petrie s	.70	2.6	16	167	28	27⅜	27⅜	−½
31⅛	22¾	PetRs	3.57e	11.		56	30¾	30⅜	30¾	+¼
19⅞	16	PetRs	pf1.57	7.9		9	19¾	19½	19¾	+¼
3⅝	1⅞	PtrInv	.45e	24.		285	2	1⅞	1⅞	−⅛
72⅞	43¾	Pfizer	1.64	2.7	15	2862	60⅝	59⅝	60⅛	−⅛
32½	10	PhelpD			37	289	21⅜	20⅞	21¼	+⅛
63	48¾	Phelp pr	5	9.5		16	52⅝	52¼	52½	−⅛
24	14	PhilaEl	2.20	9.9	9	5176	22⅛	21⅞	22⅛	+⅛
42	30	PhlE	pf3.80	9.7		z300	40½	38¾	39	−½
47	32½	PhlE	pf4.40	9.9		z150	44¾	44¼	44¼	+¼
92½	63	PhlE	pf8.75	10.		z880	86¼	86¼	86¼	
13⅞	10⅝	PhlE	pf1.41	11.		48	13	12⅝	12⅞	
15⅛	9⅝	PhlE	pf1.33	11.		66	12¼	12⅛	12¼	+⅛
12⅞	9¼	PhlE	pf1.28	10.		79	12¼	12	12¼	
134¼	117⅛	PhlE	pf17.13	13.		z240	128	127½	127½	
124	105¾	PhlE	pf15.25	13.		z2470	116	116	116	
99	80	PhlE	pf9.50	10.		z120	94	94	94	
83½	57½	PhlE	pf7.80	9.6		z1670	81½	79¼	81½	+2½
80	55½	PhlE	pf7.75	10.		z130	77	77	77	−¾
18¾	12⅝	PhilSb s	.94	5.3		52	17⅞	17⅝	17¾	−⅛
78	36⅞	PhilMr	s2.30	3.2	13	6405	72¼	71⅝	72	−⅛
16	9⅞	Philipl s	.35	2.5	13	290	14½	13⅞	14⅛	−⅛
13½	8¼	PhilPet	.60	5.6	16	2594	10⅝	10½	10⅝	
25½	19¼	PhlPt	pf2.02e	8.8		90	23½	23¼	23½	+⅛
41⅞	25½	PhlVH	.40	1.0	15	225	40½	39⅞	40½	+⅛
49⅞	29	PiedA s	.32	.7	13	259	47⅝	47½	47⅝	
22¼	15⅝	PieNG	s1.20	5.7	15	19	21¼	20⅞	21	−¼
[illegible]										

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
60¼	26⅝	WiscPL	2.96	5.5	13	129	54⅛	53½	53¾	−½
53	36½	WiscPS	5	5.8	12	277	52⅝	51⅞	52	−½
38½	22	Witco s	1.12	3.2	12	348	34⅝	34	34½	+¾
13⅞	6¾	WolvrW	12j			65	9½	9⅜	9⅜	
48	24¾	Wlwth	s1.12	2.6	14	4145	43¾	43¼	43⅝	−¼
137	77¾	Wolw	pf2.20	1.8		1	123	123	123	+13¼
5⅝	2	WrldAr			2	10	4	3⅞	3⅞	
19¾	19¼	WrldVI n				24	19½	19¼	19¼	−¼
51	29⅝	Wrigly s	.96	2.1	26	292	46¼	45½	46	+¼
4⅛	1¾	Wurlitzr				21	1⅞	1¾	1⅞	+⅛
17½	10½	WyleLb	.32	2.8	26	23	11¾	11½	11½	−⅛
25¼	13	Wynns	.60	2.7		44	23	22⅝	22⅝	−¼
		X Y Z								
72¼	48¼	Xerox	6	6.5	17	3370	55⅞	54¾	54⅞	
58¼	54	Xerox	pf5.45	9.6		30	56⅝	56⅝	56⅝	+⅛
28⅝	20⅝	XTRA	.64	2.8		217	23⅛	22⅝	23	+⅛
18¾	13½	Yordn s				163	18⅛	17⅝	17⅞	−¼
39	27	ZaleCp	1.40	4.1		26	35⅝	33½	33⅞	+¼
9½	2⅛	Zapata	.03j		508	2⅞	d	2⅝	2¾	
45⅞	20¾	Zayre s	.32	1.5	14	3632	21½	21	21¼	−¼
17	9¾	Zemex	.40	3.5	12	7	11⅝	11⅝	11⅝	−⅜
29⅞	16¼	ZenithE				614	19⅞	19½	19⅝	−⅜
18¼	6	ZenLb s			10	1333	9⅝	9	9⅝	+⅜
22⅝	12⅝	Zero s	.29	2.8	14	290	14¼	13⅞	14⅛	+⅜
45¾	33¾	Zurnin	1.32	3.5	15	50	37¾	37⅝	37¾	
10⅞	16	Zweig n				734	10⅛	10	10	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, October 17

[illegible]

OVER-THE-COUNTER

Nasdaq national market, closing prices October 17

[illegible]

Continued on Page 29

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Pound causes concern as dollar seeks direction

BY COLIN MILLHAM

STERLING gave cause for some concern last week, and tended to take the spotlight off the dollar. There were plenty of US and British economic figures for the market to examine, but these had no strong impact.

US retail sales in September rose sharply, by 4.6 per cent, but this was less then some forecasts, which ranged up to 8 per cent, although the general level of expectations was around 3 per cent. There was little reaction however because without car sales the rise was a mere 0.1 per cent, and it had been known for some time that dealer incentives had led to a high level of car sales during the period.

Another figure with the potential to move the market was September US industrial production. This rose 0.1 per cent, against forecasts of a fall of around 0.2 per cent, but the figure was not strong enough to change the view that the US economy is performing sluggishly. Further evidence was supplied by the larger than expected fall of 7.6 per cent in September housing starts.

UK statistics were mixed, showing encouraging news on unemployment and public sector borrowing, but less optimism about the outlook for inflation. The figures were overshadowed however by nervousness about oil prices, as ministers from the Organisation of Petroleum Exporting Countries, meeting in Geneva, struggled to reach agreement about production quotas, and by Mr Nigel Lawson, Chancellor of the Exchequer's, speech at the Mansion House on Thursday.

Mr Lawson's speech was also directly connected with the rise of 1 per cent in UK bank base rates prompted by the authorities on Tuesday.

Dealers were generally taken back by the timing and the size of the base rate rise, feeling that a rise of 2 per cent should have been made a week or so earlier, which could have been presented to the Tory conference as a sign of strong Government, or that the authorities should have stuck to their guns and refused to move rates.

The foreign exchanges regarded the 1 per cent rise as insufficient to put a firm base under the pound, and tended to look on the move as a sign of weakness, which could be exploited by putting further pressure on the currency.

The Chancellor's speech failed to convince the market that another 1 per cent rise could be avoided, and when sterling opened in London on Friday morning it quickly lost 1 cent against the dollar and fell to a record low against the D-Mark.

UK retail and producer prices suggested the downward trend in inflation may be at an end. Rising petrol prices were a major factor behind the rise in the year-on-year retail prices index to 3 per cent in September from 2.4 per cent, while an increase in fuel and raw material prices pushed up manufacturers import costs sharply by 1.7 per cent in the same month.

Unemployment news rarely moves financial markets, and the underlying fall of 22,000 in September UK unemployment had a similar impact to the lower than expected provisional PSBR figure of £2.2bn for the same month. The figures were encouraging, but were virtually ignored as the market had its attention elsewhere.

The other important event of the week was the intervention by European central banks to support the dollar. On Tuesday central banks, including the West German Bundesbank, bought an estimated $1bn, but as a director of the Bundesbank suggested at the end of the previous week, the intervention could only slow the dollar's decline and not reverse it.

This followed similar co-ordinated intervention the previous Tuesday, and may be enough to prevent the market from attacking the dollar too hard if tomorrow's third quarter US gross national product growth figure disappoints. Dollar sentiment remained bearish, but the market was looking for the GNP figure to provide direction.

£ IN NEW YORK

Oct 17	Latest	Previous Close
£ Spot	1.4320-1.4330	1.4355-1.4365
1 month	0.66-0.64 pm	0.67-0.65 pm
3 months	1.94-1.90 pm	1.93-1.90 pm
12 months	6.73-6.63 pm	6.68-6.53 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Oct. 17	Previous
8.30 am	67.3	67.9
9.00 am	67.3	67.8
10.00 am	67.1	67.6
11.00 am	67.1	67.6
Noon	67.1	67.6
1.00 pm	67.2	67.6
2.00 pm	67.2	67.6
3.00 pm	67.3	67.7
4.00 pm	67.3	67.7

CURRENCY MOVEMENTS

October 17	Bank of England Index	Morgan Guaranty Changes %
Sterling	67.3	-26.1
U.S. Dollar	108.9	+1.3
Canadian Dollar	76.6	-13.2
Austrian Schilling	134.0	+9.2
Belgian Franc	97.6	-5.5
Danish Krone	90.5	+2.6
Deutsche Mark	142.8	+19.8
Swiss Franc	168.9	+22.6
Guilder	131.1	+13.2
French Franc	70.9	-12.5
Lira	48.2	-15.4
Yen	214.9	+60.1

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

CURRENCY RATES

Oct. 17	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.854081	0.737422
U.S. Dollar	5.5	1.22108	1.05414
Canadian $	8.58	*	1.46473
Austrian Sch.	4	16.9529	14.6273
Belgian Franc	8	49.9849	43.1962
Danish Kroner	7	9.08606	7.83757
Deutsche Mark	3½	2.40968	2.07930
Neth. Guilder	4½	2.71751	2.35022
French Franc	9½	7.88451	6.80978
Italian Lira	12	1669.45(1)	1439.70
Japanese Yen	3½	188.413	162.549
Norway Krone	8	8.89190	7.67048
Spanish Peseta	—	160.349	138.357
Swedish Krona	8	8.31701(1)	7.18242
Swiss Franc	4	1.97571	1.70455
Greek Drach.	20½	163.130	141.007
Irish Punt	—	0.886418(1)	0.765259

* CS/SDR rate for Oct. 16; 1.69824
(1) SDR Rate for October 16.

OTHER CURRENCIES

Oct. 17	£	$
Argentina	1.5485-1.5550	1.0830-1.0865
Australia	2.2425-2.2465	1.5680-1.5700
Brazil	20.04-20.17	14.02-14.09
Finland	6.9140-6.99260	4.8360-4.8380
Greece	189.74-192.98	132.63-134.86
Hong Kong	11.1465-11.1590	7.7955-7.7975
Iran	108.00*	75.60*
Kuwait	0.4185-0.4195	0.29280-0.29300
Luxembourg	58.70-59.80	41.00-41.10
Malaysia	3.7440-3.7510	2.6180-2.6200
N. Zealand	2.8658-2.8785	2.0060-2.0160
Saudi Ar.	5.3620-5.3665	3.7495-3.7500
Singapore	3.1050-3.1115	2.1715-2.1735
S. Af. (Cm)	3.1915-3.2155	2.2450-2.2500
S. Af. (Fn)	6.6510-6.9755	4.6510-4.8780
U.A.E.	5.2515-5.2555	3.6725-3.6735

* Selling rate.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.4315	1.4249	1.4118	1.3939	1.3640
D-mark	2.8275	2.8108	2.7785	2.7345	2.6561
French Fr.	9.2575	9.2330	9.1918	9.1302	9.0858
Swiss Fr.	2.3200	2.3041	2.2765	2.2374	2.1664
Yen	220.75	219.48	217.12	213.75	207.75

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu October 17	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.1962	+0.19	+1.05	±1.5368
Danish Krone	7.81701	7.83757	+0.26	+1.12	±1.6403
German D-Mark	2.11083	2.07930	-1.49	-0.63	±1.1127
French Franc	6.87316	6.80978	-0.92	-0.06	±1.3659
Dutch Guilder	2.37833	2.35022	-1.18	-0.32	±1.5059
Irish Punt	0.764976	0.765259	+0.04	+0.09	±1.6683
Italian Lira	1476.95	1439.70	-2.52	-1.98	±4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Oct. 17	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.432	2.828	220.8	9.258	2.320	3.195	1958	2.000	58.75
$	0.699	1	1.975	154.2	6.468	1.621	2.232	1368	1.397	41.05
DM	0.354	0.506	1	78.07	3.274	0.821	1.130	692.5	0.707	20.78
YEN	4.530	6.485	12.81	1000	41.94	10.51	14.47	8870	9.058	266.1
F Fr.	1.080	1.546	3.054	238.5	10	2.506	3.451	2115	2.160	63.46
S Fr.	0.431	0.617	1.219	95.15	3.990	1	1.377	844.0	0.862	25.32
H Fl.	0.313	0.448	0.885	69.09	2.897	0.726	1	612.8	0.626	18.39
Lira	0.511	0.731	1.444	112.7	4.728	1.185	1.632	1000	1.021	30.01
C $	0.500	0.716	1.414	110.4	4.630	1.160	1.598	979.2	1	29.38
B Fr.	1.702	2.437	4.813	375.7	15.76	3.949	5.438	3333	3.403	100

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

EURO-CURRENCY INTEREST RATES

Oct. 17	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	8-8¼	8⅛-8⅜	8⅛-8⅜	8¼-8⅜	8⅜-8⅝	8⅝-8⅞
D. Guilder	5¼-5⅜	5¼-5⅜	5⅜-5½	5⅜-5½	5⅜-5½	5⅜-5½
Sw. Franc	⅞-1⅛	⅞-1⅛	3⅛-3¼	3⅞-4⅛	3⅞-4⅛	3⅞-4⅛
Deutschmark	4⅛-4¼	4⅛-4¼	4⅛-4¼	4⅛-4¼	4⅛-4¼	4⅛-4¼
Fr. Franc	7⅞-8⅛	7½-8	8⅛-8¼	8⅛-8⅜	8⅛-8⅜	8⅛-8⅜
Italian Lire	9½-11	9½-10½	10¼-10¾	10½-11	10½-11	10½-11
B. Fr. (Fin.)	6⅞-7⅛	7-7¼	7⅛-7½	7⅛-7⅜	7⅛-7⅜	7⅛-7⅜
B. Fr. (Con.)	6⅝-7⅛	7⅛-7⅜	7⅛-7⅜	7⅛-7⅜	7⅛-7⅜	7⅛-7⅜
Yen	4⅝-4¾	4⅝-4¾	4⅝-5	4⅝-5⅛	4⅝-4¾	4⅝-4¾
D. Krone	9⅛-9⅜	9⅛-9⅜	9½-10	9½-10	9⅝-10⅛	9¾-10⅛
Asian $ (Sing.)	6-6⅛	6-6⅛	6⅛-6⅛	5⅞-6	5⅞-6	6-6⅛

Long-term Eurodollars: Two years 6⅝-6⅞ per cent; three years 7⅛-7⅜ per cent; four years 7¼-8 per cent; five years 8-8¼ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

Oct. 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4245-1.4335	1.4310-1.4320	0.68-0.65c pm	5.57	2.00-1.95c pm	5.52
Canada	1.9840-2.0000	1.9990-2.0000	0.57-0.47c pm	3.12	1.53-1.38 pm	2.91
Netherlands	3.18½-3.20¼	3.19-3.20	1¾-1⅝c pm	6.10	5-4⅞ pm	6.03
Belgium	58.54-58.85	58.70-58.80	22-17c pm	3.90	62-53 pm	3.91
Denmark	10.64¾-10.66	10.64½-10.65½	3⅛-3⅛ore pm	3.59	7⅛-5⅞ pm	2.42
Ireland	1.0335-1.0415	1.0395-1.0405	0.30-0.60p dis	-5.19	0.60-1.15 dis	-3.37
W. Germany	2.81¾-2.83¾	2.82¼-2.83¼	1⅞-1½pf pm	6.90	5-4⅞ pm	6.90
Portugal	207.00-209.10	207.00-209.00	40-105c dis	-4.18	175-330 dis	-4.86
Spain	188.75-188.50	188.00-188.50	7pm-40c dis	-1.05	10pm-60 dis	-0.53
Italy	1950-1961¼	1957½-1958½	3-par lire pm	-0.92	5-1 pm	0.61
Norway	10.40¾-10.44¼	10.42¾-10.43¾	2⅞-3⅝ore dis	-3.59	8⅞-9⅞ dis	3.35
France	9.22¼-9.26¼	9.25¼-9.26¼	2⅝-2⅛c pm	3.08	6⅝-5⅞ pm	2.73
Sweden	9.74-9.76¼	9.75¼-9.76¼	2⅞-2⅛ ore pm	3.07	7⅞-6⅞ pm	2.97
Japan	2.20¼-2.21¼	220¼-221¼	1⅛-1⅛y pm	6.80	3⅞-3⅞ pm	6.67
Austria	19.82-19.90	19.87-19.90	10⅞-9gro pm	5.85	29-25⅞ pm	5.47
Switzerland	2.31-2.32½	2.31½-2.32½	1⅞-1½c pm	8.41	4½-4⅞ pm	7.44

Belgian rate is for convertible francs. Financial franc 59.05-59.15. Six month forward dollar 3.79-3.74c pm. 12 month 6.80- 6.70c pm

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Oct. 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4245-1.4335	1.4310-1.4320	0.68-0.65c pm	5.57	2.00-1.95cpm	5.52
Ireland†	1.3747-1.3805	1.3770-1.3780	1.20-0.90c pm	9.15	3.40-2.85 pm	9.08
Canada	1.3874-1.3900	1.3890-1.3900	0.27-0.30c dis	-2.46	0.89-0.94 dis	-2.63
Netherlands	2.2250-2.23350	2.2310-2.2320	0.12-0.10c pm	0.57	0.34-0.31 pm	0.56
Belgium	40.92-41.10	41.00-41.10	4⅞-6⅞ c dis	-1.61	14-18dis	-1.56
Denmark	7.42¾-7.44¾	7.43¾-7.44¾	1.50-2.00ore dis	-2.82	5.65-6.15dis	-3.17
W. Germany	1.9685-1.9770	1.9740-1.9750	0.27-0.24pf pm	1.55	0.71-0.68pm	1.40
Portugal	145¼-145¾	145⅝-145⅞	100-140c dis	-9.91	325-425 dis	-10.32
Spain	131.00-131.53	131.35-131.45	60-75c dis	-6.17	185-205dis	-5.94
Italy	1364-1369	1367¾-1368¾	5-6lire dis	-4.39	16-17½dis	-4.32
Norway	7.27-7.29	7.28½-7.29	5.40-5.80ore dis	-9.22	16.20-16.60dis	-9.00
France	6.44¾-6.47½	6.46½-6.47	1.15-1.30c dis	-2.27	4.00-4.40dis	-2.60
Sweden	6.80-6.82¼	6.81¾-6.82¼	1.35-1.55ore dis	-2.55	4.30-4.60dis	-2.61
Japan	153.95-154.40	154.15-154.25	0.20-0.15y pm	1.36	0.44-0.39 pm	1.08
Austria	13.86½-13.89¾	13.88½-13.89	⅞-¼ gro pm	0.34	1pm-1dis	—
Switzerland	1.6130-1.6215	1.6200-1.6210	0.39-0.34c pm	2.71	0.84-0.79 pm	2.02

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 41.25-41.35.

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls—Last Nov.	Dec.	Jan.	Mar.	Puts—Last Nov.	Dec.	Jan.	Mar.
1.30	13.05	13.05	13.05	13.05	0.00	0.06	0.40	1.10
1.35	8.05	8.05	8.05	8.05	0.08	0.42	1.25	2.43
1.40	3.25	3.52	4.21	4.53	0.81	1.69	3.02	4.58
1.45	0.75	1.26	2.05	2.54	3.36	4.43	5.86	7.59
1.50	0.09	0.32	0.85	1.30	7.65	8.49	9.66	11.35
1.55	0.05	0.06	—	0.61	12.56	13.23	—	15.66
1.60	0.00	0.01	—	0.26	17.56	18.18	—	20.31

Estimated volume total, Calls 108 Puts 0
Previous day's open int. Calls 1,926 Puts 2,990

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last Nov.	Dec.	Jan.	Mar.	Puts—Last Nov.	Dec.	Jan.	Mar.
1.35	8.20	0.10	8.15	8.25	0.35	0.45	1.00	1.95
1.40	3.25	3.70	4.10	4.55	0.75	1.65	2.565	3.95
1.45	0.75	1.25	1.75	2.30	3.30	4.40	5.50	6.90
1.50	0.10	0.35	—	1.05	6.75	8.50	—	10.75
1.55	0.10	0.15	—	0.50	12.65	13.25	—	15.10
1.60	—	0.10	—	0.30	—	18.15	—	19.75
1.65	—	0.70	—	1.50	—	18.70	—	20.20

Previous day's open int: Calls 2,228, Puts 962
Volume: 50

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last Nov.	Dec.	Jan.	Mar.	Puts—Last Nov.	Dec.	Jan.	Mar.
1.30	13.70	13.60	13.60	13.60	—	0.05	0.20	0.75
1.35	8.60	8.60	8.70	8.70	0.05	0.30	0.85	1.75
1.40	3.80	4.10	4.40	5.00	0.45	1.40	2.10	3.85
1.45	0.85	1.50	2.05	2.60	2.60	3.70	5.00	6.60
1.50	0.10	0.45	0.80	1.20	6.80	7.70	8.70	10.10
1.55	—	0.05	—	0.50	11.40	12.20	—	14.30
1.60	—	—	—	0.15	16.50	17.00	—	18.90

Previous day's open int: Calls 39,352 Puts 85,098
Previous day's volume, Calls 3,383 Puts 569

LIFFE—EURODOLLAR OPTIONS
$1m points of 100%

Strike Price	Calls—Last Dec.	Mar.	June	Sept.	Puts—Last Dec.	Mar.	June	Sept.
93.00	1.01	0.97	0.88	—	0.00	0.06	0.17	—
93.25	0.77	0.76	0.70	—	0.01	0.10	0.24	—
93.50	0.53	0.57	0.54	—	0.02	0.16	0.33	—
93.75	0.32	0.41	0.39	—	0.06	0.25	0.43	—
94.00	0.16	0.27	0.28	—	0.15	0.36	0.57	—
94.25	0.06	0.17	0.18	—	0.30	0.51	0.72	—
94.50	0.02	0.10	0.11	—	0.51	0.69	0.90	—

Previous day's open int: Calls 1,283 Puts 1,525
Estimated volume, Calls 1 Puts 50

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Mar.	Puts—Last Dec.	Mar.
106	4.04	4.53	0.32	1.60
108	2.40	4.19	1.04	2.47
110	1.38	3.18	1.48	3.46
112	0.52	2.28	3.16	4.56
114	0.24	1.49	4.52	6.13
116	0.10	1.16	6.38	7.44
118	0.04	0.59	8.32	9.19
120	0.01	0.37	10.29	11.01

Estimated volume total, Calls 848, Puts 864
Previous day's open int. Calls 21,171, Puts 5,889

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Mar.	Puts—Last Dec.	Mar.
88	6.42	7.09	0.06	1.31
90	4.55	5.50	0.19	2.08
92	3.17	4.38	0.45	2.60
94	2.00	3.37	1.28	3.59
96	1.06	2.47	2.34	5.05
98	0.34	2.03	3.62	6.25
100	0.15	1.32	5.43	7.54
102	0.06	1.05	7.34	9.27

Estimated volume total, Calls 10, Puts 20
Previous day's open int, Calls 594, Puts 912

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Mar.	Puts—Last Dec.	Mar.
1525	11.77	16.15	1.27	2.55
1550	9.86	14.34	1.86	3.24
1575	8.12	12.65	2.62	4.05
1600	6.56	11.08	3.56	4.98
1625	5.21	9.63	4.71	6.03
1650	4.06	0.32	6.06	7.22
1675	3.10	7.14	7.60	8.54
1700	2.32	6.08	9.32	9.98

Estimated volume total, Calls 11, Puts 31
Previous day's open int, Calls 223, Puts 232

LONDON

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Dec.	109-18	110-04	109-07	110-15
March	109-18	109-30	109-11	110-15
June	109-18	—	—	110-15

Est volume 13,632 (11,761)
Previous day's open int. 15,943 (15,868).
Basis quote (clean cash price of 13¼% Treasury 2004/08 less equivalent price of near futures contract) —4 to 4 (32nds).

10% NOTIONAL SHORT GILT
£100,000 64ths of 100%

	Close	High	Low	Prev.
Dec	95-52	95-56	95-50	96-05
March	95-52	—	—	96-05

Est Volume 85 (10)
Previous day's open int. 1,174 (1,174)

THREE-MONTHS STERLING
£500,000 points of 100%

	Close	High	Low	Prev.
Dec.	88.30	88.67	88.45	88.72
March	88.95	89.09	88.93	89.12
June	89.25	89.32	89.22	89.36
Sept.	89.12	89.12	89.05	89.17
Dec.	88.85	—	—	88.90
March	88.65	—	—	88.92

Est. Volume 7,733 (5,454)
Previous day's open int 13,262 (13,315)

FT-SE 100 INDEX
$25 per full index point

	Close	High	Low	Prev.
Dec.	163.00	164.00	161.70	162.80
March	166.10	—	—	165.90

Estimated volume 248 (240)
Previous day's open int. 2,840 (2,832)

THREE-MONTH EURODOLLAR
$1m points of 100%

	Close	High	low	prev.
Dec.	94.01	94.04	93.99	94.09
March	93.91	93.94	93.89	94.00
June	93.71	93.71	93.69	93.79
Sept.	93.40	93.40	93.37	93.47
Dec.	93.01	93.00	92.96	93.08
March	92.61	92.60	92.57	92.68

Estimated volume 5,136 (3,836)
Previous day's open int. 25,278 (25,482)

U.S. TREASURY BONDS 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Dec.	94-18	94-19	94-02	94-30
March	93-21	—	—	94-01
June	92-21	—	—	93-01

Estimated Volume 4,731 (3,437)
Previous day's open int. 6,096 (6,871)

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4315	1.4249	1.4118	1.3939	1.3640

IMM—STERLING $s per £

	Close	High	Low	Prev
Dec.	1.4265	1.4300	1.4235	1.4260
Mar.	1.4085	1.4105	1.4040	1.4080
June	1.3920	1.3925	1.3800	1.3915
Sept.	1.3785	1.3800	—	1.3780

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
Dec.	1.4183	1.4185	1.4185	1.4280
Mar.	1.3995	—	—	1.4098
June	1.3825	—	—	1.3940

Estimated volume 200 (7)
Previous day's open int. 930 (920)

CHICAGO

U.S. TREASURY BONDS (CBT) 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Dec.	94-18	94-25	94-06	94-22
March	93-21	93-27	93-08	93-24
June	92-21	92-26	92-09	92-24
Sept.	91-24	91-28	91-12	92-26
Dec.	90-29	90-29	90-19	90-31
March	90-04	90-07	89-26	90-06
June	89-14	89-14	89-05	89-15
Sept	88-26	—	—	88-27
Dec.	88-08	—	—	88-09
March	87-24	—	—	87-25
June	87-10	—	—	87-11

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Close	High	Low	Prev.
Dec.	94.78	94.89	94.75	94.90
March	—	94.85	94.73	94.85
June	94.59	94.67	94.57	94.68
Sept.	94.31	94.34	94.32	94.41
Dec.	93.96	94.02	93.97	94.06
March	93.60	93.66	93.61	93.70
June	93.25	—	93.25	93.34

CERT. DEPOSIT (IMM)
$1m points of 100%

	Close	High	Low	Prev.
Sept.	93.71	—	—	93.80
Dec.	94.34	—	—	94.41

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Close	High	Low	Prev.
Dec.	93.95	94.05	93.92	94.05
Mar.	93.84	93.95	93.81	93.94
June	93.64	93.74	93.61	93.72
Sept.	93.33	93.43	93.30	93.41
Dec.	92.94	93.02	92.93	93.02
Mar.	92.54	92.60	92.54	92.62
June	92.14	92.20	92.16	92.22
Sept.	91.76	91.82	91.78	91.84

MONEY MARKETS

Chancellor fails to convince

DEALERS ON London's financial markets were not convinced by the end of last week that they had heard the last on the subject of higher interest rates. For most of the week they had given Mr Nigel Lawson, Chancellor of the Exchequer, the benefit of the doubt about economic policy, but the signs on Friday were not encouraging.

UK clearing bank base lending rate 11 per cent since October 15

Tuesday's signal to the money market by the Bank of England that a rise of 1 per cent in bank base rates would be in order was particularly unsettling. It was generally considered a worse alternative to putting rates up by 2 per cent, or leaving the rate structure unchanged and hoping that pressure for an increase would ease. There were already signs early in the week that pressure was easing, and the rise therefore came as quite a surprise.

Mr Lawson's argument that the weakness of the pound and the acceleration in the growth of the narrow money supply indicator, M0, was an acceptable reason for the 1 per cent rise, did not gain much support.

Dealers feared that the impact on the currency and money supply growth would not be strong enough.

The immediate reaction to the Chancellor's speech at the Mansion House on Thursday was that he had failed to convince the City that the currency and economic policy are running on a safe course. Three-month interbank finished on Friday at 11⅝ per cent, pointing to another rise of at least ½ per cent in bank base rates, while the pound fell to a record low of DM 2.8250 against the D-mark.

One favourable sign was that the discount houses received some bills at Friday's Treasury bill tender. On the previous two weeks the Bank of England declined to allot any bills, but on Friday the average rate of discount was 10.6958 per cent, and roughly in line with the present rate structure. This might at least mean the houses do not believe there will be another rise in base rates as early as this week.

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct. 17) 3 months U.S. dollars		6 months U.S. dollars	
bid [illegible]	offer [illegible]	bid [illegible]	offer [illegible]

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Oct. 17	Oct. 10		Oct. 17	Oct. 10
Bills on offer	£100m	£100m	Top accepted rate of discount	10.7097%	—
Total of applications	£577.5m	—	Average rate of discount	10.6958%	—
Total allocated	£100m	—	Average yield	10.99%	—
Minimum accepted bid	£97.33	—	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	53%	—			

WEEKLY CHANGE IN WORLD INTEREST RATES

	Oct. 17	change		Oct. 17	change
LONDON			NEW YORK		
Base rates	11	+1	Prime rates	7½	Unch'd
7 day interbank	11	+1¼	Federal Funds	5⅝	Unch'd
3 month interbank	11⅝	+1	3 Mth. Treasury Bills	5.16	-0.17
Treasury Bill Tender	10.6958	[illegible]	6 Mth. Treasury Bills	5.35	+0.22
Band 1 Bills	10¾	+1	3 Mth. CD	5.80	+0.13
Band 2 Bills	10¾	+1	FRANKFURT		
Band 3 Bills	10¾	+1	Lombard	5.5	Unch'd
Band 4 Bills	10¾	+1	One mth. Interbank	4.55	[illegible]
3 Mth. Treasury Bill	10¾	+1	Three month	4.525	[illegible]
1 Mth. Bank Bills	11	+1	PARIS		
3 Mth. Bank Bills	11	+1	Intervention Rate	7.00	Unch'd
TOKYO			One mth. Interbank	7⅝	[illegible]
One month Bills	4.59375	-0.125	Three month	7⅝	[illegible]
Three month Bills	4.84375	Unch'd	MILAN		
BRUSSELS			One month	11	[illegible]
One month	7⅜	[illegible]	Three month	11⅛	[illegible]
Three month	7¼	[illegible]	DUBLIN		
AMSTERDAM			One month	13⅜	[illegible]
One month	5⅝	[illegible]	Three month	13⅞	[illegible]
Three month	5½	[illegible]			

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

NEW YORK (4 p.m.)

		Treasury Bills and Bonds			
Prime rates	7½	One month	5.02	Three year	6.61
Broker loan rate	7¼	Two month	5.14	Four year	6.83
Fed. funds	5⅞	Three month	5.16	Five year	6.94
Fed. funds at intervention	5⅝	Six month	5.40	Seven year	7.33
		One year	5.78	10 year	7.55
		Two year	6.36	30 year	7.84

Oct. 17	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.35-4.25	4.45-4.60	4.45-4.60	4.45-4.60	4.45-4.60	5.5
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7
Zurich	[illegible]	[illegible]	—	[illegible]	[illegible]	—
Amsterdam	[illegible]	[illegible]	—	[illegible]	[illegible]	—
Tokyo	[illegible]	[illegible]	—	[illegible]	[illegible]	—
Milan	[illegible]	[illegible]	—	[illegible]	[illegible]	—
Brussels	[illegible]	[illegible]	—	[illegible]	[illegible]	—
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—

LONDON MONEY RATES

Oct. 17	Overnight	7 days notice	Month	Three Months	Six Months	One Year
Interbank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	—	—	5.90-5.95	5.90-5.95	5.90-5.95	6.05-6.10
SDR Linked Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell): one-month 11 per cent; three-months 11 per cent; Bank Bills (sell): one-month 11 per cent; three months 11 per cent; Treasury Bills: Average tender rate of discount 10.6958 p.c. ECGD Fixed Finance Scheme IV reference date September 3 to October 7 (inclusive): 10.355 per cent. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10 per cent from October 1, 1986. Bank Deposit Rates for sums at seven days' notice 4.35-4.375 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 11 per cent; one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-12 months 11 per cent; Under £100,000 11 per cent from October 16. Deposits held under Series 5 11 per cent. Deposits withdrawn for cash 5½ per cent.

SECTION III

FINANCIAL TIMES SURVEY

Arena of economic growth

IT IS almost a cliché to say that the Pacific Rim is where the future lies. There, the pioneering virtues which gave birth to the Industrial Revolution in Europe are to be found fashioning the 20th century economic miracle.

It is not surprising, therefore, that any prolonged blip in the region's economic heartbeat, such as the one recorded in south-east Asia over the past two or three years, should cause concern in the business houses of Europe and the US and provoke a re-assessment of investment strategies.

By ALAIN CASS

The "*Singapore Express*," the locomotive that has helped to give the city state a standard of living undreamt of 25 years ago has, been derailed by a combination of ill-fortune and bad management. At the same time the failure or near-failure of various high-flying companies in the region—Carrian and the Tung shipping group, in Hong Kong, Thailand's First Bangkok City Bank and Pan-Electric in Singapore—have tended to reinforce this perceived sense of reversal.

Growing protectionism in the West and the depressing effect on some of Asia's most vibrant economies of US economic sluggishness have also taken their toll. The effects of declining commodity prices on growth rates in Indonesia and the rest of South East Asia as well as in Australia—where there has been a steady disintegration of the Labor government's compact with the trade unions—have all added to the uncertainty of the region's future.

To these questions could be added the long term challenge to Japan's export performance by the inexorable rise of the mighty yen and the fear that the region's vitality will be sapped by the lack of stable political structures. The penetration of Russian military strength into Asia to challenge American dominance is another worrying factor.

Set against these concerns, however, two of the region's most important characteristics stand out: the first is its underlying strength and economic potential, a treasure store of primary resources, entrepreneurial vibrancy and disciplines which are rooted in a rich and diverse cultural heritage. The second is the ability of countries in the region to bend to the prevailing wind and emerge reasonably unscathed from political and economic crises.

The 34 countries which circle the Pacific Rim and the 23 island states scattered across 70m sq miles account for more than half the world's population and half its total wealth. They embrace the full spectrum of political and economic systems, from the unbridled capitalism of the US to the military dictatorships of South America and the Marxist regimes of Indo-China.

They speak more than a thousand languages between them, and display the richest religious and cultural traditions of any region in the world. A bewildering profusion of races exists among its 2.4bn people.

The Pacific rim possesses 21 per cent of the world's oil resources, 68 per cent of its wool, 67 per cent of its cotton, 87 per cent of its natural rubber and 94 per cent of its natural silk. Sometimes, it seems to have a monopoly on enterprise.

Individually and collectively, countries in the region have contributed to a fundamental shift of power from the Atlantic and, thanks to the facility of modern communications, have emerged as the most consistently reliable economic performers since the end of the second world war.

Three years ago US trade with Asia outstripped, for the first time, the flow of goods and services across the Atlantic. In 1975, US trade with East and South-East Asia totalled \$42bn. By last year this had surged to \$200bn.

The reawakening of China as a vital and potentially vast new market has added to the excitement of a region already vibrant with the success of Asia's Four Tigers — South Korea, Singapore, Hong Kong and Taiwan.

The pathfinder for this remarkable performance has, of course, been Japan which, from 1950 to 1973, notched up growth rates of over 10 per cent a year, or more than twice the world average. It has since exported not just its goods and services but also its business acumen to the rest of the world.

More recently Japan has become a major player in the world's capital markets. In 1984 Japan's current account surplus was \$25bn. This year it could reach \$70bn. Some \$40bn of Japanese savings have helped fund the US budget deficit over the past two years. Tokyo now has the world's second largest stock exchange, and the yen is fast taking on the aspect of a world currency.

Despite the difficulties of countries such as Singapore, others continue to perform impressively. Taiwan was the fastest growing economy in the world in 1984. South Korea, devastated by war only 32 years ago, confidently expects to be the fifteenth richest country in the world by the year 2000.

Even those countries, such as the Philippines, faced by potentially disastrous civil conflicts, have emerged apparently stronger thanks to a resilience which is characteristic of the region.

The significance of the Pacific basin has been recognised both by the Americans and the Russians. In the US, both political and economic influence has shifted imperceptably from the east to the west coast. Though he may appear obsessed with the Soviet Union, President Ronald Reagan (a Californian) has devoted much of his energies to consolidating American ties across the Pacific, most notably with China.

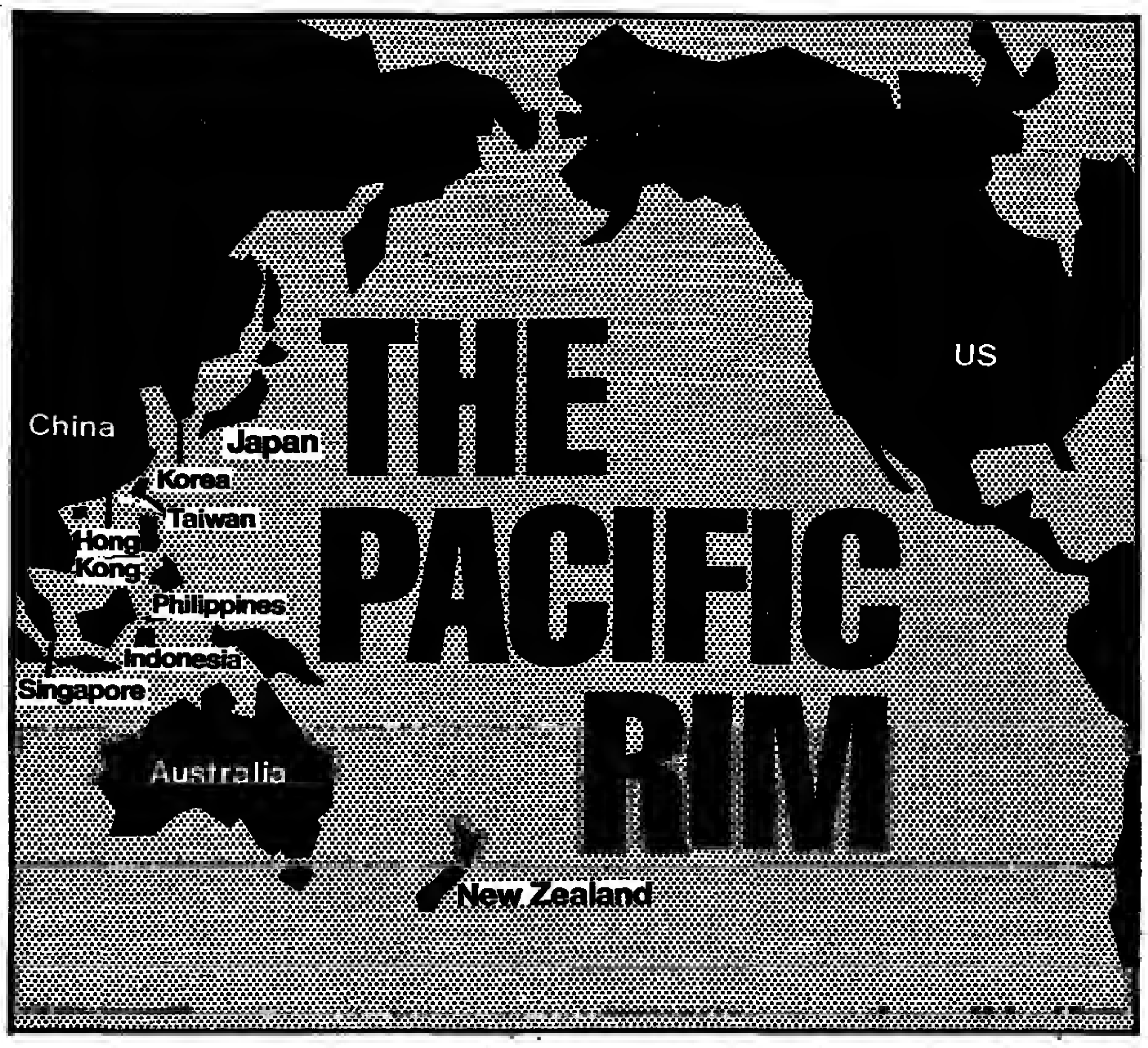
Mr Mikhail Gorbachev, the energetic new leader in the Kremlin, signalled his own recognition of the importance of the Asia-Pacific region in a major policy speech in Vladivostok on July 28. After more than two decades of neglect, not all of it benign, the Soviet Union is attempting to reassert its influence in the region.

Although they may disagree over specific issues, such as Moscow's backing for the Vietnamese occupation of Kampuchea, Mr Gorbachev and Deng Xiaoping, the Chinese leader, take the same pragmatic view of the world. The fraternal embrace of the 1950s may no longer be possible but Moscow and Peking appear firmly set on the road to a practical working relationship.

After the upheavals of the mid-1970s, when the US was driven from Vietnam and General Eisenhower's dominoes appeared to be falling one by one, a stability of sorts has settled over the region.

The future is unlikely to be without incident or even upheaval. The growing consciousness of the peoples of Melanesia, coupled with a growing resentment of France's colonial presence in New Caledonia and its nuclear testing programme in Polynesia, presage troubled times ahead.

CONTINUED ON PAGE 8



The end of the Vietnam War in 1975 saw the coming of age of a new economic and political region, grouped around the rim of the Pacific Ocean. Many of the nations in the region, strategically located on trade routes vital to both East and West, have enjoyed unprecedented economic vitality.

IN THIS SURVEY

The Overseas Chinese

A cementing force of 30 million people

"WHEN YOU talk about the overseas Chinese, you talk about the miserable history of China," says Professor Zhu Jieqin, head of the Institute of Overseas Chinese Studies at Canton's Jinan University.

Most of them are refugees from a century and a half of economic and political chaos, from persecution, from civil war, and from poverty that has been endemic in a society where so many people are competing to survive on a limited amount of cultivable or fertile land.

However, from the point of view of governments across Asia, and for communities in London and in some of North America's most dynamic cities, you also talk about some of the most powerful and successful business groups in existence—just as widely dispersed as, and in places even more powerful than, Jewish people outside Israel.

Around the Pacific Rim, there can be no other cementing force as important as the 30m overseas Chinese—or "Huaqiao," pronounced Huachiao—who act as mediums for international trade and investment, are among the most highly educated in any community where they are found, and today run many of the major corporations in the countries where they have settled.

As the giant Chinese economy opens up to the outside world after 35 years of virtual isolation, this same community has spearheaded foreign efforts to build business and trading links with the mainland. They accounted for 80 per cent of the US$6bn foreign investment committed last year, and channel untold millions into the country in the form of donations or family remittances.

Whether you are in San Francisco, Soho, Jakarta, Melbourne or Vancouver, if you want to do business, there is a considerable likelihood that your local counterpart will be Chinese. He may carry a local name, and affect local customs, but it would be a great mistake to overlook the importance of his Chinese origins.

The great majority of China's Huaqiao have their ancestral roots in Guangdong or Fujian. First emigrants were traders, with Cantonese businessmen like Xie Qinggao sending home letters describing the streets of London—and the revelation of piped water supplies—more than 200 years ago.

The overthrow of any dynasty also inevitably ended with a crop of officials seeking exile in countries nearby. Vietnam's once substantial Chinese community began life this way, with Ming officials taking 3,000 people on 50 ships, across to Saigon. In the wake of the Vietnam war, most of these have now fled to new homes around south east Asia or to countries like tha US and Canada, but the community had by 1960 grown to more than 3m.

As China's vast economy has opened up to the outside world it is the overseas Chinese community which has spearheaded foreign efforts to build business and trading links with the mainland.

Until 1842, it was in fact forbidden by the emperor for any Chinese to travel beyond the country's borders. Those who defied this dictat were regarded as traitors and faced execution on return to the mainland.

Only the defeat of China at the hands of the imperial powers in the first opium war reversed this. Civil disturbances and deepening poverty that accompanied the final years of the feeble Qing dynasty provided a strong incentive for Chinese peasants to seek their fortunes overseas.

The pull came from countries like the US and Canada, which had railways to build, and from the news of fortunes being made in the gold rushes in California and north west Canada in the 1880s and beyond. Even today, San Francisco is known to the Chinese as "Jiu Jinshan," or "old gold mountain," while Sydney in Australia is known as "Xin Jinshan" or new gold mountain.

At the same time, consolidation of plantations in Malaysia and Indonesia mainly by British and Dutch colonial companies led to a heavy demand for plantation workers.

Chiu Chows from the far north east of Guangdong province tended to settle together in Thailand, Vietnam and Kampuchaea, Malaysia and Singapore. At the same time, Hokkien-speaking communities from Fujian province around Xiamen settled in Indonesia—where they now control the majority of the country's non-oil trade—in Singapore—where they form the single largest language group—and in pockets in Malaysia.

Hakka, a migrant people who gravitated towards Guangdong centuries ago, have also settled overseas in large numbers, their womenfolk even today often seen around south east Asia wearing their characteristic black-veiled hats.

More recent flights from China, most of them linked with the political turmoil during the Sino-Japanese war, and the persecutions and economic chaos witnessed since the Communist government came to power in 1949, have started from four countries in the Pearl River delta around the county of Taishan.

Taishan itself today boasts a population of 800,000 inside China, and 1.2m overseas. None realised at the time they left that this group of emigres would play a major part in developing Taishan — with donations and remittances being used to build roads, schools and a wide range of other amenities undreamed of in less fortunate parts of China's interior.

Officials in Canton, the capital of Guangdong, estimate that overseas Chinese last year funded the building of 2,000 schools, 100 hospitals, dozens of bridges and hundreds of kilometres of properly-surfaced road in the province. They were also an important factor in the province's success in attracting foreign investment last year amounting to US$2.3bn.

The impact of the overseas Chinese has often been no less notable in the communities where they have settled. They have made tiny Hong Kong one of the most prosperous enclaves in Asia, and have had a similar impact in Singapore where they account for a substantial majority of the population.

Figures like Li Kashing and Sir Yue-Kong Pao in Hong Kong have over the past 30-odd years built up empires that are worth billions rather than millions of dollars—Li Kashing diversifying from plastic flowers and property, and Sir Y.K. from ship-owning.

The Lee family in Singapore, which controls the Overseas Chinese Banking Corporation and the Lee Rubber Group, Khoo Teck Puant, who holds a major stake in the National Bank of Brunei, and the Sophonpanich family that controls the Bangkok Bank, can also be counted among the world's super-rich.

In Indonesia, Liem Sioe Liong controls a business empire under the patronage of President Suharto that ranks him among the wealthiest men in the world. From his Indonesian corporate base, he controls banks in Hong Kong and the US, and a major international trading group.

In San Francisco, the Chan family that owns the newly built Ramada Hotel, and their unrelated namesakes who own the Crocodile Garment Company, are just two of the more prominent in an 80,000-strong community that is understood to own about one-tenth of the commercial property in the city. Chinese run a large number of the leading electronics companies in nearby Silicon Valley—including the Wang Group.

In Vancouver and Toronto, the thriving Chinatowns at the heart of both cities form the base for similarly large and powerful Chinese communities.

Many Hong Kong names—like that of Li Kashing—are well known as prominent investors in property in Vancouver, even though most recent immigrants control more modest fortunes.

At present, Canada is perhaps the single most popular target for migration for overseas Chinese — partly because of an array of government policies aimed at encouraging migration, and partly because it is seen to offer a stability and quality of life that is rarely found elsewhere.

Recent migrants to North America — and to Australia for that matter, which in recent years has relaxed its long-standing "white Australia" policy — have tended to be professionals rather than entrepreneurs. Many of them have come from Hong Kong, where uncertainty over the territory's future, once China regains sovereignty in 1997, has prompted thousands to seek the security of an alternative nationality.

It is difficult to gauge the economic impact of these migrant flows, and the investments that have made migration possible. The Australian Government estimates that property investments alone over the past decade amount to around US$4bn, while in Canada it is thought to be at least twice that sum, and in the US even larger, but simply unquantifiable.

Officials in Hong Kong insist that these outings — both of cash and highly trained manpower — have had a negligible impact on the territory's economy, which remains one of the most buoyant in Asia. The claim is difficult to believe, but virtually impossible to challenge.

While the economic success of overseas Chinese is indisputable, their traditional secretiveness and introversion, coupled with reluctance to enter the political fray, has left them politically vulnerable in many countries and cities.

In Indonesia, there are frequent violent outbursts by ethnic Indonesians against the local Chinese. When President Suharto dies, then they can no longer be certain that his successor will provide similar shelter, with the result that substantial fortunes have been invested outside Indonesia to provide protection against an uncertain future.

In Malaysia, where Chinese make up about 30 per cent of the population, laws have been drafted quite specifically to discriminate against the Chinese so that indigenous "Bumiputras" can establish a toehold in business areas long-dominated by the Huaqiao. Racial tensions have often led to a volatile political climate.

In the US, divisions between Chinese sympathetic to Taiwan, and those more sympathetic to the interests of mainland China have until the recent past castrated the Chinese communities in political terms.

Divisions based on language and clan grounds have also divided the communities, providing an important reason for the failure of Chinese communities in San Francisco and Vancouver to win a political voice that matches their numerical strength.

In San Francisco, a 36-year-old assistant district attorney named Julie Tang, who left Hong Kong almost 20 years ago as a 17-year-old schoolgirl, may be on the point of breaking new ground as she fights for a seat on the city's board of supervisors. For the first time in its long history, the city's Chinese community appears to be converging in support for her. If successful, she will be the first ethnic Chinese ever to be elected on to the board.

While the likes of Julie Tang have thrown deep and permanent roots into their adopted societies, few are willing to turn their backs on their Chinese origins: "I see myself as Chinese American rather than American Chinese," Julie Tang says.

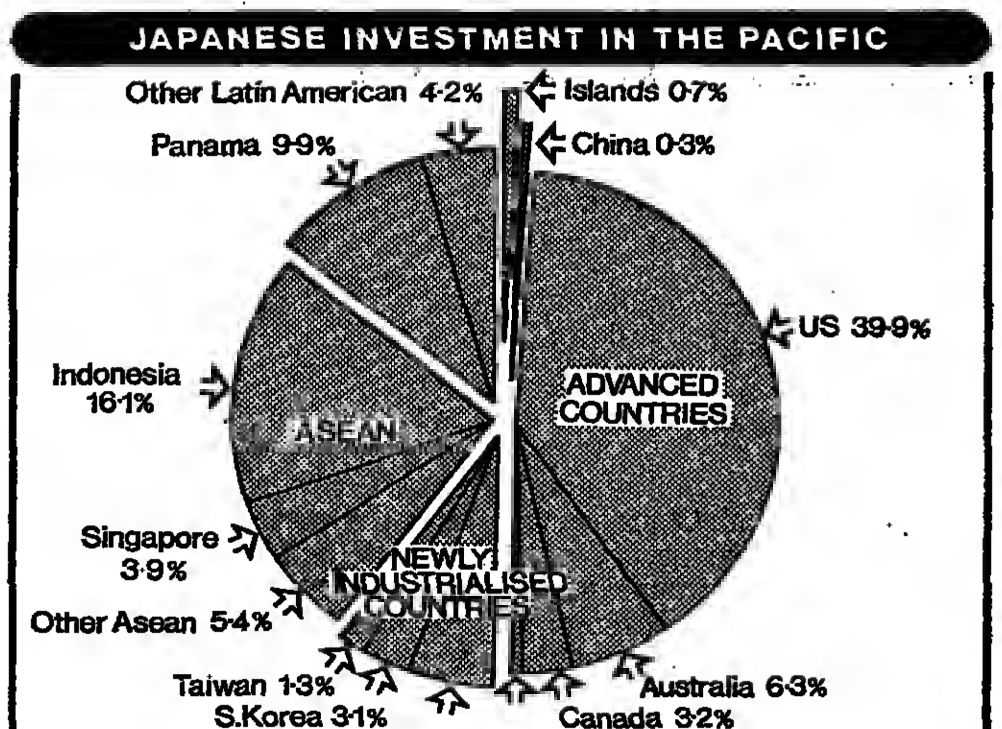
Like many around her, she has been back to China for a visit, and it appears certain that many more will in the years to come retrace their roots back into the rural villages of Guangdong and Fujian where parents and grandparents first came from.

These Chinese are the people of the Pacific Rim. They give the region much of its coherence, and will play a major part in enhancing the coocept in years to come.

David Dodwell

Traders from Singapore familiarise themselves with the "open outcry" system of floor trading at the Chicago Mercantile Exchange during a two week training and orientation session

JAPANESE INVESTMENT IN THE PACIFIC



Japan's influence in the region

Trade involvement deepens

A JAPANESE recognition of the potential value in a more cohesive relationship with the countries which fan out in the ocean around it has long been on the official agenda. A Tokyo conference on the subject was convened in 1968, and the late Prime Minister Ohira's subsequent enthusiasm for Pacific Basin co-operation gave rise to anxiety among South-East Asian governments that this would represent just another arena of dominance for the industrialised North.

Today the official Tokyo standpoint is notable largely for its caution. Mr Yasuhiro Nakasone, the present Prime Minister, uses "realistic gradualism" as his preferred phrase for policy on the region.

At the same time, though, Japan has been a more than willing partner in the loosely structured organisations such as the Pacific Basin Economic Council (PBEC) which have evolved. Groupings like this, while tireless as conveners of conferences have shown little sign of incubating a more substantive role of, say, arbitrator in disputes or unifier of arrangements for trade.

This is pretty much how Japan likes it. Tokyo officials note with satisfaction that market ecoomies predominate in the region, but describe as fanciful any attempt to draw conclusions from this which embrace a political or strategic commonality. Evenhandedly, they are less than lukewarm about the suggestions which have been made by Moscow in the past few months that it too should rank in the Pacific partnership.

They point out that little more than a year ago the Soviet line was one of dismissal as an inherently capitalist forum. Its membership of the PBEC or any other assemblage, they argue, should be preceded by a more visible commitment to trade with the region.

But as Japanese ministries continue gingerly to sidestep tripwires like these, a far more fundamental shift has been occurring in the private sector. Companies are moving production abroad at a rate which is accelerating by the month, fuelled by a 40 per cent rise in the yen against the dollar over the past year.

The country's Economic Planning Agency now estimates that by the year 2,000 as much as a fifth of manufacturing output will be produced et Japanese-owned facilities offshore, compared with a current level of perhaps 5 per cent.

Leading makers in the automotive and electronics industries will reach and exceed proportions like that much sooner.

Pacific nations have by no means been sole beneficiaries, and official "guidance" from Tokyo is likely to have figured in earlier years, bringing the tempering of trade friction well to the fore when sites were being selected.

If, as a result, the US and Europe have been favoured with the headline investments — Toyota to Kentucky, Nissan for Tyne and Wear — a spate of smaller deals is now boosting vehicle output in Taiwan and South Korea.

Overall, though the US remains a powerful magnet for Japanese direct investment abroad, accounting for roughly a third of an annual total which the Export-Import Bank of Japan says is running at $13bn.

Mr Makoto Sakurai, senior economist at its Research Institute of Overseas Investment, points out that tax credits and accelerated depreciation scales for new plant and machinery have brought to the US not only Japan's biggest industrial stars but many of their smaller satellites.

One curious spin-off from this could have a far-reaching structural impact on manufacturing within Japan in the next decade.

A brand-name maker of, say, consumer electronic goods in Japan will typically have e number of supplier companies which, if not entirely dedicated to meeting its component needs, will have its output geared primarily to suit its products and those of other related companies. The smaller units are not subsidiaries—equity cross-holdings are low—although boards may overlap and co-operation ranks high.

Operating out of their new Silicon Valley sites, however, these component makers are beginning to cast for, and win, business far beyond the traditional "family." The newly distanced parents are in some cases disquietened, and the Japanese Ministry for International Trade and Industry is said itself to be concerned at possible effects on domestic employment stability.

In the past, Japanese direct foreign investment to the region was accompanied by exports of capital goods for the projects involved. Now, US equipment is being bought more readily for installations there, while Asian countries are also able to offer somewhat more from their own resources. Imports back to Japan are seen as the logical, if not automatic or immediate, next step.

Examples already exist of investments being linked to large-scale imports, although few such can be found outside the energy sector where Japan is not self-sufficient.

None the less, the economy of Western Australia is being underpinned for at least the next 10 years by the commitment of Mitsubishi and Mitsui, the two giant trading houses, to the A$12bn North-West Shelf project which will have Japanese utilities as sole export customers for its liquefied natural gas.

Revenues from Japanese exports have been hit not only by the yen's appreciation against the dollar (to which Pacific currencies are frequently pegged) but by official clampdowns, notably Peking's response to its foreign exchange drain.

Makers of consumer durables such as television sets were shaken to discover that the world's biggest new market for their products had, for the moment, all but ceased to exist.

As the electronics sector responded belatedly in revising profit projections further downward, arbitrary external factors were easy to blame. The element of naivete within Japan shrouded by their earlier confidence is rather less tractable. It embodies much that can be justified—the quality of Japanese-made goods and the assurance of timely delivery among them. Having opened its customs gates to a well-made, well-priced prodnct, it could be thought unwise that this would be among the first to be turned away when circumstances altered.

But the attitude conceals deeper assumptions about Japanese superiority which have been slow to dissipate as postwar Japan has internationalised. Racial or nationalistic gaffes by members of the government are only the most visible aspect of these—in the past two months Mr Nakasone was forced first to sack his Education Minister over an allusion disparaging of Koreans, then himself apologise to the US for what was read as e denigration of intelligence levels among American ethnic minorities.

National identity is not, for Japan, a matter fit for blurring into a broader regionalism.

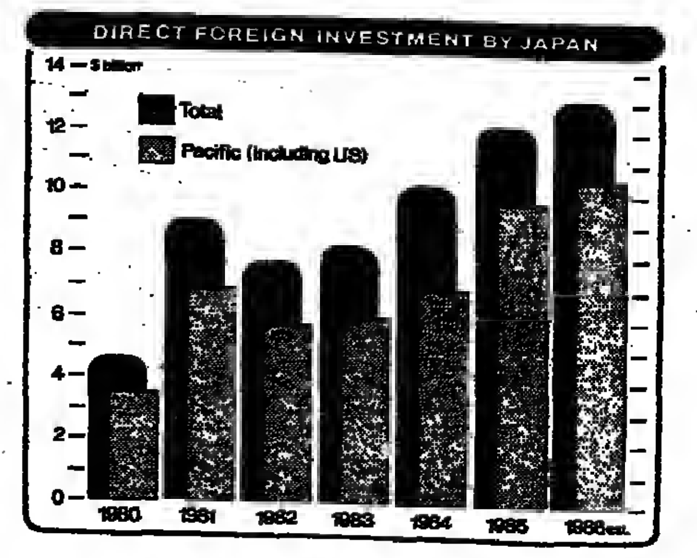
On the contrary, tha country's deeper involvement in tha well-being of those who share its ocean is projected at home as stemming from pride as much as necessity. As Mr Nakasone's quoted opinions about Mexicans in the US were invoking the ire of Washington's Hispanic caucus, ha was able tha same day to attend a scheduled meeting with a visiting Finance Ministry team from Mexico to confirm an agreement for $1bn in project aid.

A "flying geese" pattern of development — in parallel, but not all abreast — is a term credited in the 1930s to Kaname Akamatsu, the Japanese economist. It is used in Tokyo still to describe the Pacific; to explain why many Japanese bankers find it too diffuse a region to merit treating as an entity; to acknowledge the diversity which would inhibit an EEC-style alliance of equals; and to suggest a leadership role for Japan which avoids the taint of domination.

Gordon Cramb

Foreign exchange dealers in Tokyo: looking for bigger markets

DIRECT FOREIGN INVESTMENT BY JAPAN



Australia: on the doorstep of one of the world's fastest-growing economic regions.

Springboard for European and US traders

AS AUSTRALIA suffers under a mounting balance of payments problem requiring a big export drive if it is to be overcome, the country has only recently begun to recognise that on its doorstep is one of the fastest-growing economic regions in the world.

On the western side of the Pacific rim, stretching from Japan in the north, past the awakening giant of China, through the dynamic countries of south east Asia, down to the recently deregulated New Zealand, is a region of the world doing best in the international economy.

South east Asia currently accounts for about 20 per cent of the world's GDP and through the adaptability of its member economies is widely tipped to keep growing at rates of around 5 per cent a year, while the older industrialised world of Europe and North America has to come to terms with major structural problems.

While a member of the ASEAN community in strategic terms, economically Australia is not yet one of them, and as a largely raw material supplier has been falling slowly behind in recent years as commodity prices tumble and the region's major exports, manufactured goods, increase.

In its favour the national government has recognised the problem and is moving to develop a number of export strategies to turn its geographical position in the region to economic advantage while proximity to Asian markets has made Australia an attractive springboard for European and American companies wishing to trade in the region.

Historically Australia's ties with the Pacific rim have largely been due to the complementary nature of its resource richness with the scarce resources of its northern neighbours.

As Australia dug up much-needed minerals and produced hefty food surpluses its northern neighbours devoured the produce and returned with increasingly sophisticated manufactured goods.

The biggest economy in the region, ignoring the eastern side of the Pacific where the US dominates, is Japan.

Today, Japan is the number one destination for Australian exports accounting for nearly 30 per cent of the total while the US is in second place with 10 per cent and New Zealand third with about a 5 per cent share.

But the exports to Japan are largely raw materials such as iron ore and coal which in return Australia receives the ubiquitous Japanese cars and electronic goods.

Australia's problems are compounded by the fact that the Western Pacific rim countries have been generally moving towards manufactured products and away from food stuffs and agricultural raw materials for the past decade. They are turning instead towards the fastest-growing high-price areas of world trade, while Australia has been relatively slow to change.

That a number of recent developments within the Australian economy has combined to offer the prospect that the country has at least recognised its problems and is moving rapidly to overcome them.

The most important development was the floating of Australia's national currency and its resulting depreciation against a wide basket of other currencies, and allied with this has been an unprecedented period of industrial peace, with government action to break down the imposing system of *tariffs and quotas*.

The depreciation of the dollar has helped overcome one of the major barriers to Australian export industries, the high cost-structure and poor international competitiveness.

After the dollar fell nearly 40 per cent against other currencies, Australian companies suddenly found they could sell into the highly competitive Asian markets with some price advantage.

The depreciation also encouraged some overseas companies, such as Japanese car manufacturers with factories in Australia to consider building products for export back to head office.

Meanwhile, the federal government moved relatively quickly to ensure that the competitiveness gains of a lower dollar would not be dissipated through higher inflation or o wages break out.

This process continues today and has so far been modestly successful thanks largely to a union leadership willing to accept employment growth ahead of wage increases for those with work.

Australia's level of industrial disputation has returned to that last seen in the 1960s, helping to improve the country's *reliability as an exporter*.

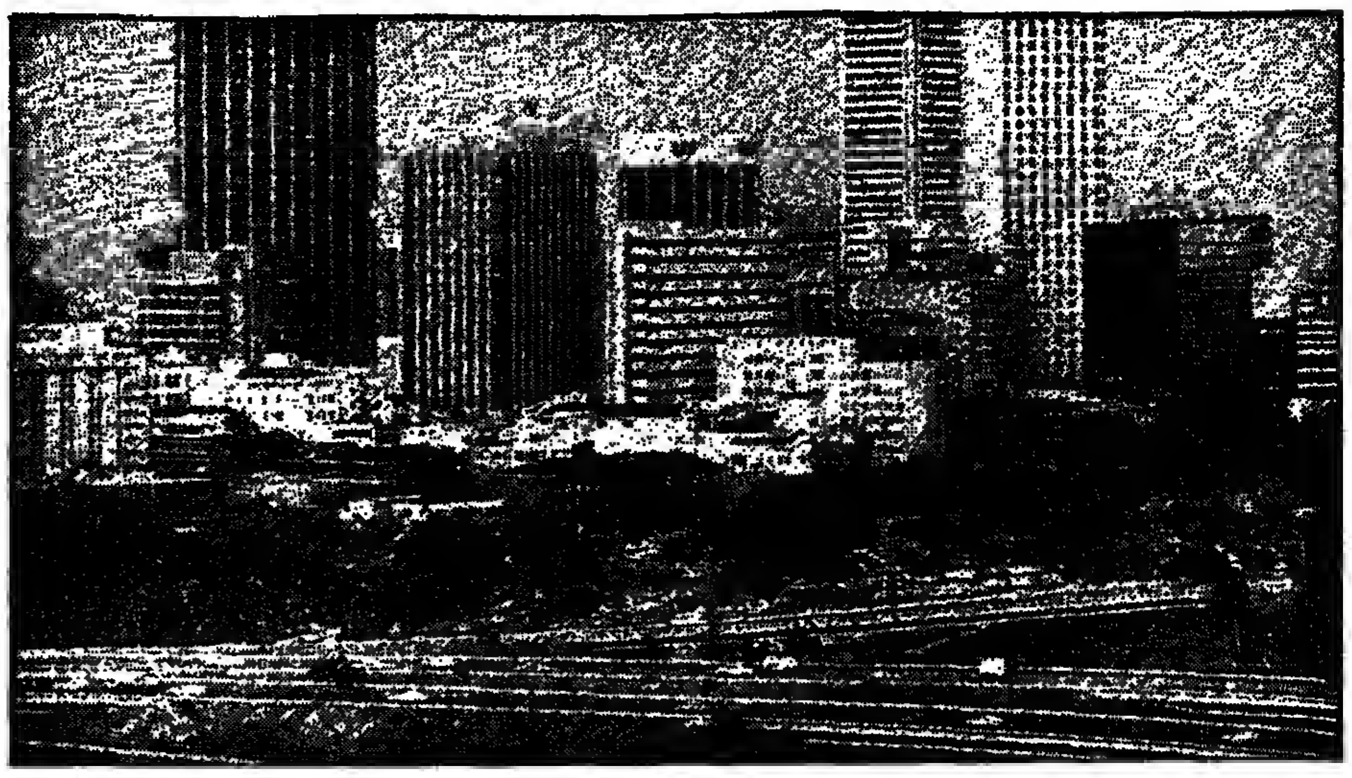
High tariffs, which simultaneously made local industries less efficient while angering northern neighbours which wished to expand trade in the region, are the next step in the government's programme of reform.

Unions, business leaders and members of the Government have all recognised that important as these changes are, to be effective attitudes of ordinary Australians to work and towards their Asian neighbours need to be changed.

The process to bring about these changes is underway and promises to be the most difficult of all the tasks. But Australia remains a young country *without the long-established traditions and values of its European predecessors*.

The problems in the Australian economy and the strategy needed to overcome them has widespread acceptance in the community, and once again Australia may find itself the lucky country helped out this time by its neighbourhood more than its natural resources.

Chris Sherwell



Perth, Western Australia: venue for Pac Rim 86, the international symposium on finance, trade and investment in the Pacific Rim region, November 16-19, 1968

Industrial transformation in China: a woman machine operator in a Canton factory

China

Dilemmas as the giant awakes

AN AWAKENING China has presented varying dilemmas to the Pac Rim region. For the Japanese, it is to take advantage of the "open door," while bearing in mind Peking's past instability. For Singapore and several others, the challenge is to expand trade, while not becoming overly dependent on the Asian giant.

Unlike many visiting leaders to stride through the "door," the Singaporean Prime Minister, Mr Lee Kuan Yew, has urged caution in dealing with China.

"There is always the danger that should economic co-operation with China expand, Singapore could become too dependent. And that could be disastrous when dealing with a communist country," he says.

However, the Australian Prime Minister, Mr Bob Hawke, has had little hesitation in pushing ahead with substantial development of trade, and has tried to hitch Australian industries, in particular, iron and steel, and wool, to China's modernisation drive.

That there are conflicting assessments of China's worth as a partner is a consequence of the short time China has been open for business, and of the country's record of political upheaval in the recent past. China is still an unproven commodity to many countries in the region.

A striking example of regional hesitancy has been Japan, China's major trading partner. Japanese companies have been quite willing to sell, but persistently reluctant to invest, much to the chagrin of Chinese *officials*, who point to a Japanese bilateral trade surplus last year of \$6bn as a sign that the relationship is unbalanced.

Of 2,300 equity joint venture contracts signed by the end of 1985, Japan had about 4 per cent in project number terms, well behind the US, 7 per cent, and Hong Kong, 77.5 per cent.

In US dollar terms, Japan had 15.6 per cent of all investment, ahead of the US, with 9.6 per cent, but well behind Hong Kong, with 58.6 per cent.

In dollars, Europe accounted for 9.3 per cent of investment, other Asian countries for 4.1 per cent, and sundry other countries for 2.8 per cent.

Overall foreign investment fell by 20 per cent in the first half of this year, compared to the same period last year.

While China is surrounded by dynamic Asian economies, those countries, apart from Hong Kong, have so far played a limited role in Chinese development. For example, diplomatic complications are still a hindrance in the cases of South Korea and Taiwan.

South Korean trade *officials* made clear to me that they would be very keen to invest in Chinese projects, but Peking's close ties with North Korea has restrained relations, *though supposedly* unofficial trade burgeons—bilateral trade through Hong Kong alone last year was about US\$500m, an 80 per cent increase on 1984.

Taiwan

On the other hand, China is only too willing for investment from Taiwan, but the Taipei Government maintains that it will never allow direct trade with or investment on the mainland, while allowing indirect exports.

Government information offices and Kuomintang officials emphasised during interviews late last month that there has not been, and will not be, a softening of the "no contact policy," even though indirect trade last year was just over \$1bn, double that of 1984.

Taipei's senior spokesman, King-Yuh Chang, director-general of the government information office, said: "We ship our exports to Singapore, Hong Kong and Japan. If they ship them to the mainland, then that is their business."

China's influence, through trade and government-to-government ties, has grown as Peking's active support for regional communist parties has faded. Indonesia does not have diplomatic ties, with bilateral relations haunted by an attempted communist coup in 1965, but the countries signed a direct trade agreement in July last year.

Singapore has indicated that whether it establishes diplomatic ties with Peking depends on relations between Jakarta and Peking.

In a mid-October meeting with the former Australian prime minister, Mr Gough Whitlam, who recognised Peking immediately after taking office in 1972, the Chinese leader, Deng Xiaoping, said he is satisfied with current co-operation between China and Pacific countries.

However, while Peking says *its growing regional role* will be as a peace-keeper, several Asian leaders harbour concern that a radical change in political direction could make a more powerful China a *more powerful foe*. The Malaysian Prime Minister, Datuk Seri Mahatir Mohamad, has said his country will not be "caught napping" by a swing of political sentiment.

"As you know, countries do change and in the case of China we have seen very radical changes. No leadership of any country can be absolutely certain that the policies of their country will not change," the Malaysian leader said.

He has been pleased by Chinese assurances that Peking provides no support for insurgent activity in Malaysia, but said during a visit here late last year that insurgents still believe China supports them.

"They still believe in outdated ideas and think they could get help from China simply because of ethnic connections. That is their belief, and because they believe that, they are not doing things in the interests of Malaysia and maybe not in the interests of Malaysian-Chinese relations."

The Chinese leadership is doing its best to ensure the political *stability that* will work against a sudden shift in foreign and trade policy.

Robert Thomson

Barges carry export goods down the great Yangtse River at Chunking

THE PACIFIC RIM 4

Deng Xiaoping, the Chinese leader, attaches much importance to foreign involvement in China's modernisation but the key question remains: What happens when he retires?

At 82, China's Deng says: 'I would like to retire early'

DURING A recent and rare interview with an American television reporter, Deng Xiaoping was asked whether he would allow an official biography to be written about himself. Mr Deng, not one for personality cults, said he would not, as the assigned author would probably be reluctant to list his many mistakes.

At that moment, the time allotted for the interview expired and the television crew was expected to leave. After much pleading, the Chinese leader agreed to another 25 minutes of questioning, and then said wryly: "That is another of my mistakes."

The crucial question in Chinese politics, of course, is: "When will Deng Xiaoping's time run out?" The 82-year-old leader who had been expected to retire next autumn is apparently under pressure from his comrades to stay at the helm as China pushes ahead with difficult and often politically-sensitive reform.

"Personally, I would like to retire early," said Deng, whose real power extends far beyond that implied by the modest title of Chairman of the Communist Party's Central Advisory Commission. He claims to work only two hours a day, devoting much of his time to books and grandchildren.

"I believe if I retire when I am still around, it would be good for the continuation of the existing policy. That is also in keeping with the conviction I have always had. In the end, as I am a member of the Communist Party, I must obey the decision of the party."

Post-Deng China remains something of a mystery to foreign investors and Chinese, who have the political contortions of the recent past to remind them that the best laid leadership plans can go astray. In fact, the past has been a guide for Deng on how not to plan a succession.

The importance the Chinese leader attaches to foreign involvement in China's modernisation can be seen in the higher commercial profile he has taken in recent months in response to a downturn in foreign investment.

For instance, he met An Wang, president of the Wang Group, on October 8, and assured him that "foreign entrepreneurs could not find a safer investment than in China."

Problems

Mr Deng has become more willing to lift his profile if he thinks lending his weight will make a difference to major problems, a trait shown by his offer to meet the Soviet leader, Mikhail Gorbachev, if Moscow "encouraged" Vietnam out of Kampuchea. And the Chinese leader has shown a greater sense of urgency in wanting to bring Taiwan back to the fold, and recently made a personal appeal for US assistance on this issue.

As such, Deng Xiaoping (known to peasants as "short-man Deng") could be the last of China's "great" leaders—the omnipotent, omniscient emperors who have ruled Chinese society through the ages. If his succession strategy goes according to plan, the country will have a more faceless, technocratic leadership, and steer away from the capriciousness of powerful personalities.

Second and third generations of leaders have already been put in place, and in the past year more than a quarter of the central committee and a third of the politburo has been pensioned off. Deng has attempted to make the legal system a source of stability, and continues to send senior officials abroad to see that life is something more than a collection of Maoist and Marxist writings.

Deng is a man of his often frank word. There is little doubt that he is prepared to slip into the background, though he will continue to influence politics until his death. The question remains as to why his comrades are urging him to stay when the supposedly strong succession structure is already in place.

The most likely answer is that his fellow travellers foresee problems in the introduction of the next phase of reform, which includes tampering with the sacrosanct party structure and introducing further politically-sensitive price reforms.

Deng Xiaoping's political success is founded on the success of his economic policies. None can dispute that wages are higher, that the food supply is better or that steps have been taken to solving a chronic housing shortage.

If the economy falters, those cadres who have lost power and prestige under reform will have a better argument against change, as will party members who think that material improvement has been accompanied by ideological bankruptcy.

If nothing else, as Deng himself has admitted, the reforms are in many ways an "experiment" and the government, like Deng the man, will inevitably make mistakes. That is why a Dengless China would be more of a ship without a rudder or, as Mao Tse-Tung would say, without e helmsman.

Robert Thomson

David Lange sees wider role for New Zealand

Prominent in South Pacific forum

DAVID LANGE, New Zealand's fast moving, eloquent, prime minister, has become a dominant and highly respected figure among the smaller Pacific Basin countries—island states, many of which have achieved independence only in the past decade.

He sees New Zealand playing a bigger role, and having greater influence in the Pacific—politically and economically among the smaller countries of Polynesia, and through trade with the more populated areas of California, Japan and South America. He and his Labour government believe the Pacific region offers much greater potential than is yet fully realised by many European or other Western countries.

He has taken a prominent role at the annual South Pacific forum, the gathering of South Pacific leaders which was established to strengthen and improve economic liaison and co-operation between all the countries in the region.

Yet, his support has not been entirely uncritical.

This year, irritated by what he considered to be too much time wasting efforts by some ower leaders to introduce a heavy political theme into the forum, he threatened to stay away in future if the forum becomes another arena for political confrontation like the United Nations.

Mr Lange is very much at home in these gatherings and slips easily into the informality of the South Pacific way of life. Typical of this ability was his weak long trip by small Pacific islands cargo ship—where accommodation and conditions were cramped to say the least—to visit some of the more remote islands in the Tokelau Group. He is the first prime minister of New Zealand ever to have done so.

The people of many of the Pacific island countries still have far to go to achieve the economic benefits and living standards enjoyed by New Zealand and other western countries, and Prime Minister Lange is, by nature, sympathetic to their needs.

Thus, his government introduced special concessions to help the smaller Pacific island countries boost their exports of fruit and other produce to NZ. It has also taken a more liberal view against illegal immigrants from Pacific countries than its predecessor.

Many people from the Pacific enter New Zealand on a visitor's permit or short term six month working pass. Thousands have stayed on to form an illegal underground workforce and are known collectively as "overstayers."

Under the previous administration they were harrassed by immigration officials and police who endeavoured to deport any they could locate. Dawn raids on the homes of suspected overstayers created a bad impression with many Pacific country governments.

Mr Lange's government put a stop to this, and earlier this year declared an amnesty for all overstayers working in the country.

This is part of the personal philosophy which brought David Lange into politics—giving up a law practice which earned him greater financial rewards than he received as a member of Parliament—and which is now a cornerstone of the rapid social and economic changes being rushed into place by his Labour Government.

Quizzed about his personal aspirations and hopes for himself and New Zealand, he says: "I want to help create a society where people are committed to each other and realise they have a duty to their brothers."

His government too has pursued radical economic policies. Although the master plan for the revolutionary attack on New Zealand's long established economic policies and financial methods was devised by finance minister, Roger Douglas, it was Lange who led the political charge to sweep away the old structure with its controls, restrictions and solidly erected bulwarks designed to shelter New Zealanders from the unpleasantries of international reality.

His support for an anti-nuclear policy springs from the same strong social convictions and although he was by no means the sole advocate of the country's anti-nuclear stand, he has won adherents for it at home and abroad with his articulate advocacy and obvious sincerity.

The damage, too, has proved more limited than at one time was feared. The US Administration honoured its word and resisted pressure to take trade reprisals against New Zealand following the row over the ban on US nuclear ships.

It is now apparent that the controversy and the attendant publicity has actually helped boost New Zealand tourist traffic from the US. The realisation that New Zealand and other South Pacific countries are pollution-free and politically untroubled without the terrorist activity often found in the northern hemisphere, has encouraged many more Americans to travel south.

The US is now a major trading partner, and California, with Australia, is usually the first target of New Zealand exporters. A whole range of New Zealand products ranging from Kiwifruit to Steinlager beer is found in stores throughout the state. Lion's brewery carried out a classic trade expansion ploy by establishing its beer in Hawaii, then leapfrogging into California and from there across the country.

New Zealand is also working hard to develop trade relations with Pacific coast countries in South America. Chile has become an important market while some of the country's largest companies have formed joint venture deals, or bought controlling shares in large South American companies, particularly in the forestry and fishing industries.

New Zealand and Canada are also moving closer together. The establishment of two new air services between Auckland and Vancouver by CPA and Air New Zealand last year has given a dramatic boost to two-way tourism and Mr Lange is confident the already close family ties between the countries will become stronger. Defence chiefs would like to see closer ties between the armed forces of both countries.

Although he is a political realist, Mr Lange will not deviate from the path laid down to all these areas for the sake of winning votes at next year's election.

While admitting the Government's headlong rush into change has caused considerable pain and financial hardship for many New Zealanders, he believes that the majority of voters will appreciate and understand what the government is trying to do and the ultimate benefits which will result.

"Right from the start we told them there would be no easy ride. We also told them there were no quick answers. The ride certainly hasn't been easy and it's not over yet, but I believe the voters will see the track is getting smoother. I believe they will stick with us," he says.

Dai Hayward

Prime Minister David Lange: irritated by what he sees as time-wasting efforts

PROFILE: LEE KUAN YEW OF SINGAPORE

Stern and vigorous leader

HE FOUNDED a nation, defeated communism, and proved—with a vengeance—that there was an alternative.

Lee Kuan Yew, Singapore's only prime minister in years of independence, has earned an international reputation that is far out of proportion to, and indeed overshadows, the tiny island state that he leads, a mere speck of land on the end of the long Malaysian peninsula that has just 2.6m citizens.

Yet out of the most unlikely circumstances, in a society with strong racial tensions and a brutal underground communist movement, Lee managed to forge a nation of mainly Chinese immigrants that is independent, capitalist, prosperous, democratic and free.

Not all would agreed with that characterisation, for it is e rather peculiar form of democracy, one that many Westerners would not recognise as such. Indeed there are those who say Lee is an oppressive autocrat who wields dictatorial power.

Even today, when Singapore is by all appearance a model city state that is free from corruption and has no obvious threat to stability, Le has a habit of hammering after his opponents with a vigour that is unflattering, if not frightening.

In recent months Singapore has repeatedly watched the Prime Minister at work, confronting, debating and interrogating his foes on the evening television replays of special parliamentary hearings.

Mr Lee has hit ent after the transgressions of Mr J. B. Jeyaretnam, one of the two opposition MPs, who cast aspersions oo the independence of the Singapore judiciary without apparent evidence to back his claims. Lee has since set his sights on the Law Society, which Mr Lee is worried is meddling in political affairs beyond his compass.

There is little question about the principle's behind Lee's attack. He is a crusader, o fighter who uses all the legal—and this is the important word—measures at his disposal to trounce on those who threaten to sully the clean edifice he has built.

Still, the Prime Minister gives a performance that, few would deny, earns him little love among his people. As an old fighter, he apparently knows not what else to do.

It is tempting to conclude that Lee has tried, largely with success, to mould this miniature nation into a vast extension of his own personality. Like a stern father, he is perhaps more respected than adored.

But the historical judgment of this Lee Kuan Yew, who will apparently brook no opposition, will surely recognise that he is the chosen leader of the people of Singapore, chosen because they like what he has created.

No one is quite sure how this new nation will carry on without him. "Nothing grows under the banyan tree," eccording to a popular expression in Singapore.

Yet so much has been created in so short e period of time, that it is hard to believe it will not live long after Lee leaves the helm. With Lee at a vigorous 63, however, this might not come for many years yet, despite his pledge to leave office in the coming years.

Steven Butler

Singapore's Lee Kuan Yew: perhaps more respected than adored

Trade on the 'Ocean of the Future'

"IF YOU want to understand Pacific trade, theo you heve to start with Japan," says a senior US trade official in San Francisco. "Here it is easy to see how, having failed to achieve worldwide economie dominetion by means of war, they have achieved it by trade during 40 years of peace."

For eight years already, US trade in the Pacific has outstripped trade across the Atlantie to Europe—and this is due almost entirely to the steep growth in Japan's exports to North America.

This is a major reason for the Pacific economies becoming the main focus of deepening protectionist sentiment in the US. As the US'e trade balance has swerved so sharply into deficit—amounting to almost $150bn last year—so it has not escaped the notice of political leaders in the US that the country runs trade deficits with virtually every Pacific trading partner.

Even among the smaller Pacific economies themselves, trading patterns show remarkable similarity: substantial trade deficits with Japan counter-balanced by substantial surpluses with the US.

Even China, which has only recently begun to emerge as a trading force and shows every sign of having an increasingly direct impact on trading patterns in the region, at least for the time being, conforms to this pattern.

These development heve coincided with—and heve in part stimulated—a shift westward in the economie centres of gravity in hoth the US end Canada.

California, which has escaped virtually unscathed as a slump in the manufacturing sector has hurt states in the centre and the east of the US, would todey rank the seventh largest economy in the world if it were an independent country. Its internatiooal trade has trebled since 1970, and today eccounts for 18 per cent of the state's gross product—compared with 9 per cent a decade ago. Not surprisingly, 75 per cent of its trede is with countries around the Poeifie Rim.

Meanwhile in Canada, the port of Vancouver has grown to become the second most important in North America in terms of the volume of cargo passing through it, handling more than 52m tonnes last year, compared with 40m tonnes in 1980.

The growth in trade in the Pacific region, which has occurred at e time of virtual stagnation in Europe, is also linked with a maturing in the economies of the region—in particular the "Four Dragons"—South Korea, Taiwan, Hong Kong and Singapore.

Governments in Australia and New Zealand have also sought closer trading links in the oearby Pacific markets—in part hecause of increasing trade barriers in traditional markets, and in part because of the proximity of Asian trading partners.

The five resource-rich member states of the association of South East Asian Nations (Asean) heve as a matter of political priority sought to focus more of their trade in the pacifie region.

But for these countries without exception, the increasing might of the Japanese economy is becoming the foremost issue of controversy and concern among trade officials. Most foreign economists feel Japan's trading success began to "get out of hand" around 1983, when its trade surplus passed US$20bn. Last year the surplus passed $46bn, and there are no convineing signs that this trend has been halted or reversed.

In acknowledgement of the fect thot o $50bn trade surplus with the US is not sustainable without serious economie and political consequences, and that its dominetion as a supplier in many Asian countries is provoking fresh complaints of "economie imperialism," Japanese offieials have over the past year taken first tentative eteps to reduce surpluses.

"The realisation of impending crisie bas begun to filter down, albeit slowly, to produce the first hint of significant eorrective actions," a western trode official noted recently in Japan.

"They are starting to recognise that they are threetening the foundations of the world trading system."

First came a devaluotion of the Japanese yen. In dollar terms, it has appreciated by over 40 per cent over the past year. It is a measure of the stranglehold many Jopanese goods have in internotional markets that such a massive revaluation has eo far oot triggered a slump ln either the volume or value of exports.

In the first quarter of 1986, Japan'a trade surplus with the world doubled to $12.46bn from the first quarter of 1985—partly because the raw materials and fuel oils that it must import in large quantities (they account for 70 per cent of all imports) have fallen steeply in price.

Imports of raw materials rose by 3.6 per cent by volume in the first quarter of this year, but in yen terms, the import bill for these materials has fallen by 24 per cent.

Exports have also beld up well despite rising prices—much to the chagrin of many competitors. This is o measure of the reputation for quality held by many Japanese manufactured products (manufacturers account for 96 per cent of all exports), but also of the enfeeblement of competitors in the US and Europe as e weak Japanese currency has enabled Japanese manufacturers to win a commanding position in its main export markets.

In their efforts to keep their markets, Jopanese manufacturers have in many cases tried to peg export prices ot the expense of profit margins. There ls e lot at stake for companies such as Sony, Nissan, Toyota or Hitachi, which export 50 per cent or more of their total production.

"It appears that some manufacturers are at last feeling a pinch," notes one observer in Tokyo. "But we have to remember that the declines come after two years of record profits—so they clearly have lots of fat to burn through."

An increasingly common response by Japanese manufacturers has been to keep costs down, and maintain markat share by boosting direct foreign investment in manufacturing capacity in markets that were once exclusively importers of Japanese goods — predominantly Taiwan, Korea, Singapore and Malaysia.

The country that bas borne the brunt of Japan's success is the US between 1980 and 1985, lmports from Japan have risen from $30.7bn to $72.4bn, while US exports to Jepan bave virtually stagnated—rising from $20.8bn to $22.6bn.

In the US, where a numher of Japanese motor manufocturers and electronics groups have recently invested in factories, the edministration feces the rather perverse prospect of Japan redocing its trade surplus by buying back from the US vehicles and electronics products that are coming off the production lines of their US subsidiaries.

Other fast growing economles in East Asia have seen similar striking gains in their sales to the US without corresponding increases in purchases from the US.

Taiwan has boosted exports to the US from $6.8bn in 1980 to $17.8bn last year, while South Korea boosted sales from $4.1bn to $10.7bo eod Hong Kong from $4.7bn to $9bn.

And as the US economy has slowed uoder the weight of such susbtantial trade deficits, eo these "Four Dragons" which depend heavily on price-sensltive textile and electronic exports have seen the weakeo- of the US dollar boost their export competitiveness in European markets for the first time in three years.

Hong Kong, for example, is boasting a 25 per cent increase io exports to West Germany so far this year—an improvement that is entirely due to exchange rate shifts.

The five ASEAN states heve not been so lucky. These mainly resource-rich economies beve managed to share in some of the stroog gains to the US but the across-the-board weakening in their primarily commodity exports—products like palm oil, rubber and oatural gas—has taken a heavy toll.

The Australian and New Zealand economies bave weakened for their own distinctive reasons. Shut out of traditional markets in Europe, their manufacturers are only now beginning to carve a niche for themselves as part nf the Pacific trading community.

Both ere high-labour-cost economies, making it difficult to penetrate the fiercely competitive markets that Jepan regards as in its back yard. Australie's natural resource eector is for once proving an insufficiently strong locomntive force for the economy and painstaking efforts to build trade links with other countries in Asia—particularly China—have borne little fruit.

China itself has only since 1978 begun to open its doors to international trade. In the recent past, the chaotie state of its domestic aconomy, combined with the pressing basic needs of its huge population, have made it an important export market for products such as grain and steel.

China remains the world's leading importer of steel—much to the benefit of refineries in Japan and South Koreo—but the receot success of agricultural policies has transformed the country into a net exporter of grains and an exporter of cotton, too. Its success as an exporter of oll has been weakened by falling crude prices but increasing ouantities of coal are likely to find their way on to world markets.

It may he a long time before Chine's eeonomy is sufficiantly organised and efficient to achieve major successes as an exporter, or to achieve self-sufficiency in a wide range of menufactured goods, but its sheer size means that even the most gradual ehifts are likely to have a dramatic lmpact on trade patterns in the Pacific and beyond. Its strength as a textile exporter is already starting to he felt—to the discomfort of textile exporters around the Pecifie es well as export markets further afield.

In the meanwhile, bopes thet China would provide a panacea for exporters have come to oought. An obsessive concern over conservation of foreign excbange reserves that have been depleted alarmingly since 1978, has kept import demand on e tight leash—even perheps to the net detriment of the eeonomy.

For all the problems facing economies eround the Pacific, it has been elear over the past decade thet they have e vitality no longer evident in many maturer economies in Europe—and the implications of this in trade terms are obvious.

David Dodwell

"The Mediterranean was the sea of the past. The Atlantic is the ocean of the present. But anyone who fails to recognise that the Pacific is the ocean of the future is likely to pay a high price for his oversight."

—comment by a noted San Francisco economist

Regional Financial Centres

Puzzle for the markets

THE PROSPECT of financial liberalisation in Tokyo has now placed e large question mark over the future of Hong Kong and Singapore, which are currently leading financial centres in the Asia Pacific time zone, providing key links in the 24 hour global trading clock.

Citicorp has now relocated its Asia Pacific headquarters to Tokyo from Hong Kong in anticipation of gaining improved access to Japan's vast capital surplus.

But Tokyo's growth is not necessarily going to spell the death knell for Asia's other financial centres. Indeed, growth in all centres seems the most likely course of events for the foreseeable future, despite some basic unknowns.

Singapore grew strongly through the 1970s as the centre of the Asian dollar market and has excelled et foreign-exchange trading, interbank lending and offshore deposit taking. Singapore has provided much of the funding for financial activities in Hong Kong, where the freer regulatory environment helped encourage growth of fund management, loan syndications and capital market activities.

Singapore is now beginning to make a bid to capture some of those activities from Hong Kong. The Monetary Authority of Singapore (MAS), the island-state's quasi-central bank, is in the process of redrafting some basic banking regulations with an eye toward encouraging local financial institutions to begin offering the plethora of new instruments that have taken hold in Hong Kong and elsewhere in the world.

Singapore and Hong Kong grew into the funding centres of the region, the booking centres for sovereign and private lending, while the Japanese banking system remained closed and tightly regulated. In the mean time, Japan's huge capital surplus has found little outlet that is more imaginative than a US Treasury Bond.

Partly because of pressure from foreign governments, notably the US, and partly out of a need for more efficient recycling of capital, Japan is gradually opening its domestic financial markets to foreign financial institutions and is reducing restrictions.

It seems almost inevitable that the sheer volume of activity in Tokyo will grow to a point that it will tower over Asia's other centres. Yet a number of factors will continue to make Hong Kong and Singapore attractive. These include relatively friendly regulatory and tax regimes, something that both cities are sure to use to compete fiercely for business, lower operating costs, and the important regional, as opposed to global, roles that both Singapore and Hong Kong will in any case continue to play.

Financial liberalisation is not necessarily going to spell the death knell for Asia's other financial centres. Hong Kong and Singapore are likely to see further growth as key links in the global trading clock.

Tokyo is expected to proceed with plans for an offshore market in Tokyo this December. The market will involve a fairly rigid separation between offshore and domestic activities.

Although withholding tax on interest and interest rate controls will not apply, local municipal taxes will. A variety of other restrictions will continue to apply and will likely make the market less attractive to it than others in Asia.

This is not to say that Tokyo will never be in a position to compete on equal grounds with Hong Kong and Singapore for offshore business, but these smaller centres have a large headstart and they are likely to continue with strong efforts to stay ahead.

Hong Kong and Singapore heve the experience, the expertise, and the infrastructure in place and running.

"Hong Kong enjoys the advantages of a well developed and liberal market," says an Australian banker. "Its market is comprised of highly professional operators not only skilled in moving money, but with a sound understanding and appreciation of China."

China is frequently cited as the insurance policy on Hong Kong's future out of a belief that China will see the advantages of having a modern, international financial dynamo on its shores, and will make the efforts to keep it going and to tap into it even after it takes over the colony in 1997. (Although the opposite argument—that "China will destroy it"—*is also heard.*)

Hong Kong's "regional" role as the link between China and the rest of the world seems sure to guarantee that a critical mass of local business will continue to help support a broader range of activities. Hong Kong's legal system and English speaking background are also a plus for the international community.

These same advantages apply for Singapore. A banker in Singapore speaks of his local staff of 35 foreign exchange dealers as "natural traders." Communication and other infrastructural facilities, bankers say are superb, something that is vital when millions of dollars of foreign exchange are sloshing in and out of branches.

Singapore has recently reduced taxes and pension fund requirements that has significantly reduced the cost of running an office. Specific tax incentives are offered for offshore business.

In the coming months the Singapore Government plans to introduce a new market for government bonds. The Government does not need to raise funds, but the bonds will serve the purpose of establishing a risk-free benchmark price for securities. On the back of this, tha Government hopes to foster the growth of markets for corporate bonds, negotiable certificates of deposit, and other tradeable securities.

Bankers in Singapore say the *MAS* has come e long way in changing its attitude toward new types of product. Citibank recently issued the largest-ever single Singapore dollar negotiable certificates of deposit, of S$100m, at coupon rate of 6 7/16, with a five year maturity.

The issue was a surprising success, surprising because the pricing was thought to be too tight, but it helped plug a gap in the shortage of medium and long term tradeable instruments. Overnight fund rates are down to about 2 per cent.

Citibank was able to negotiate a four-year moratorium with the MAS on reserve requirements on the issue, bringing down the cost structure and making it competitive.

The growth of capital markets in Singapore has been inhibited by regulations that have led to very different cost structures for different financial institutions. The MAS is currently working on new rules that will help foster the growth of these markets in order to help Singapore improve its facilities for the securitisation of debt.

Singapore's role as a financial centre is assured partly because of its location at the centre of Southeast Asia, where no nation can compete except in purely local terms. Although the region is currently in recession, and banks have been stung, the region is recognised to have rich potential for development.

Tokyo, of course, has the ability to pull the rug out from under much of what goes on in Singapore and Hong Kong if it makes a real effort to compete on all grounds—tax, costs, and expertise. But for the foreseeable future, most observers are betting that will not happen.

Steven Butler

Traders on the highly automated floor of the Tokyo Stock Exchange: it seems inevitable that the sheer volume of financial activity in Tokyo will eventually grow to a point where it will tower over Asia's other centres

The packed trading floor of the Tokyo Exchange

Impact of economic liberalisation

Important moves towards regional integration

A TREND throughout the Pacific Rim is coming of age. Governments in the region are reducing their involvement in managing economies, pulling down trade barriers, and allowing private sector financial institutions to determine investment flows, with ever greater foreign involvement.

It is a curious trend because it appears not to stem from a single cause. It comes from a set of *disparate developments* in different nations, but the outcome has been similar and self-reforcing.

The resulting increased opportunities for trade and investment both within and across national boundaries are gradually forging an integration among the region's economies that in turn is bolstering a sense of regional identity.

The trend is an historic one, and if a common thread exists, it is the passing of the post-World War II, post-colonial era, along with the belief that only centralised economic control by a strong nationalist government is capable of eliminating the widespread poverty that existed in Asia just several decades ago, and of spurring national economic development.

In some cases the very success of strong government direction over the economy, as in South Korea and in Japan, appears to have made government regulation redundant and counterproductive.

In Singapore, it took a wrenching economic downturn, the first in the island-state's 20-year history of unimpeded growth, to produce admissions that the Government did not indeed have all the answers.

The Singapore Government is now trying to clear away a clutter of unnecessary red tape and plans to divest much of its corporate holdings.

The most dramatic and the most significant shifting of gears is in China. Late September, China opened the doors on a new stock exchange in Shanghai, the first such exchange to operate since the 1949 Communist Revolution.

The 80,000 yuan of shares traded on the first day of operation was indeed a small beginning, but the opening of a stock exchange is just the latest striking symbol of economic liberalisation in China.

Since the death of Mao, almost exactly 10 years ago, China has progressively turned away from a centralised, Stalinist model of economic development and has provided a shock for the world on at least an *annual basis—free markets,* decollectivisation of agriculture, ever more liberal rules for foreign investment, and, now, legal trading of company shares.

China's pragmatism has been matched elsewhere in the region. China and South Korea, locked in bitter hostility since the Korean War over 30 years ago, have quite recently become major trading partners, and the first experimental South Korean investments in China have already begun.

Even trade between China and Taiwan has flourished, and trade with Indonesia has resumed after a long, bitter break in relations.

China has not turned completely from socialism, and the economy is still wracked by price distortions and severe imbalances, but beside the planned economy is a private sector that is growing rapidly, and increasingly bold management experiments are being tried in the state sector.

These have lifted the Chinese economy from the stagnation of Mao's late years and the trend now appears irreversible.

The changes in other nations, while less striking, are having a similar effect. The liberalisation of the Australian banking sector at the end of the last decade has resulted in a rush of new foreign entrants into that market.

Australia now has some 120 foreign merchant banks operating in the country, and their presence is spurring the more traditional, conservative Australian commercial banks to catch up on a range of modern investment banking products.

At the same time, on a reciprocal basis, the Australian banks have fanned out through the Pacific Rim, largely in pursuit of trade-based business. This year alone Westpac, the most aggressive of the Australian banks, has established branches in Seoul and Taipei, and floated a share issue on the Tokyo Stock Exchange.

Some of the impetus for change has come from the US, which has acted as a battering-ram to force concessions from the region's *success stories*—particularly Japan, Korea, and Taiwan.

US pressure has led all these governments to quicken the pace of trade liberalisation, and has prompted further opening of service sectors to the outside.

The changes in Korea, while gradual, are none the less sweeping in scope. In 1987, the Government plans for the first time to open the stock market to non-resident foreigners. This comes at a time when the Government is gradually stepping back from its hands-on management of the economy, is trying to strengthen the commercial banks so they can act independently, and is trying to foster growth of small companies that can compete on equal grounds with huge conglomerates that were the product of the past decade of tight Government control.

In the Philippines, the Government is divesting massive corporate holdings built up under the Marcos era, and freeing the banking sector, and this has produced a flurry of interest in, and the first really in years, on the Manila stock markets.

The realisation of a Pacific Rim economic community is a very long way off, despite a spate of scholarly and Government-sponsored conferences that back the idea.

But the Pacific Rim has come a long way. Less than a decade ago the region's economies were typically insular and highly regulated. Now separate, unco-ordinated moves toward economic liberalisation have set nearly all nations in the region in the same direction and have made integration a reality.

Steven Butler

Setback in Commodity Markets

Price falls could hinder new industrial projects

THE IMPORTANCE of commodities to the economies of Malaysia, Indonesia, Thailand and Philippines has gradually lessened with growing industrialisation. Nevertheless, the recent fall in the price of commodities such as tin, palm oil, rubber, and especially petroleum threatens to undermine the vital new rola natural resources play as a fuel for industrial development.

It is true that the Philippine economy depends much less on sugar and coconut oil than in the days before tha Second World War. In 1984, semiconductor devices, garment manufacture and electronic microcircuits were among the top four exports, while coconut oil slipped to third place.

In Thailand, a land forever associated with flowing rice paddies, manufactured exports of about $3.3bn almost equalled the $3.4bn earnings from agricultural products.

Even resource-rich Malaysia worked hard at attracting investment from multinationals such as National Semiconductor, AT & T and Ericsson and has become an assembly centre for computers and telecommunications equipment.

Last year saw the launch of the first Malaysian car from the Proton factory, a joint venture between Heavy Industries Corp of Malaysia and Mitsubishi of Japan.

In that year manufactured goods, including thermionic valves and tubes, accounted for 40 per cent of Malaysia's total export earnings of M$38,327m.

Nevertheless in all these countries the dramatic fall in earnings from surplus raw materials due to glutted markets, product competition and substitution, and protectionist policies has slowed investment in industrial development.

Nowhere was this damaging trend more evident than in Malaysia, tha world's biggest tin and rubber prodncer, fourth in the list for palm oil, and a country almost self-sufficient in petroleum. In 1985, primary commodities excluding petroleum still accounted for 39 per cent of Malaysia's export earnings.

But in that year the price of palm oil, the second largest export earner after petroleum, dropped by around 25 per cent, and prices continued to erode in 1986 to 50 per cent of 1975 levels.

Rubber prices declined 16 per cent in 1985, and tin traded well below tha International Tin Agreement floor price.

Consequently Malaysia's export earnings from primary commodities dipped by 5.3 per cent from M$15,796m in 1984 to M$14,957m in 1985, an abysmal performance compared to the 9 per cent average growth recordad between 1970 and 1983.

Natural resources have a vital role in helping to fuel industrial development in the Pacific Rim nations. Countertrade arrangements, linking commodities to manufactured goods, are one way that the region is seeking to push up sluggish commodity sales.

Countertrade arrangements linking commodities to manufactured goods, such as latex rubber gloves, continue to grow in popularity, as one way of pushing sluggish sales.

One broker with a leading trading company in Southeast Asia believes that "the push into technology has been somewhat unsuccessful because "a large amount of Malaysia'a development budget comes from surplus commodities."

As those prices fell, "capital spending and the promotional activities necessary for major manufacture fell by the wayside."

Multinationals such as National Semiconductor have establishe dassembly plants for value-added export orientated industries, he says—"But in terms of encouraging home-grown manufacture, the government has not been so successful."

Economic gloom has discouraged privata investment as well. Reportedly only a third of the M$1bn New Investment Fund set up by the central bank a year ago to assist productive new investment in Malaysie has been committed.

For Indonesia, tha oil price fall dramatically affected development. In 1985 revennes from oil and liquefied natural gas almost halved to US$12.4bn. The Government countered the plunge in oil income by rephasing development projects and boosting the export of primary products and textiles.

Yet, as elsewhere in the region, investment moved slowly, domestic markets for consumer goods dried up and exports faile dto expand at tha 1984 pace, due to both tough competition and increasing protectionism in consuming nations.

Consequently Indonesia's gross domestic product grew only 1.9 per cent against 6.1 per cent registered in 1984-85.

Under the new austerity budget the Government was forced to cut its development budget, for th first time in 20 years, by a swingeing 22 per cent.

Such setbacks to industrial development are having disruptive social and political consequences. As the agriculture-related businesses begin to falter unemployment in the rural areas begins to climb, and workers drift into tha cities in search of work.

For instance, in Thailand seven out of ten workers are employed on the land. Abont half of the country'a more than 20,000 ricemills are said to be hankrupt, a situation aggravated by the recent US imposition of export subsidies on American rice. So unemployment is already a growing problem and mass desertion from the land in search of work in the cities could shake the country and tha Government.

However, Government planners are taking action. Thailand's Board of Investment started to actively support agribusiness two years ago when a joint study discovered food processing was a major industry, with annual sales of almost 200,000m baht and an average annual growth rate hetween 1980 and 1983 of 23 per cent.

Consequently, the latest five-year plan announced last month charts a davelopment course that gives high priority to agriculture-based industries and services.

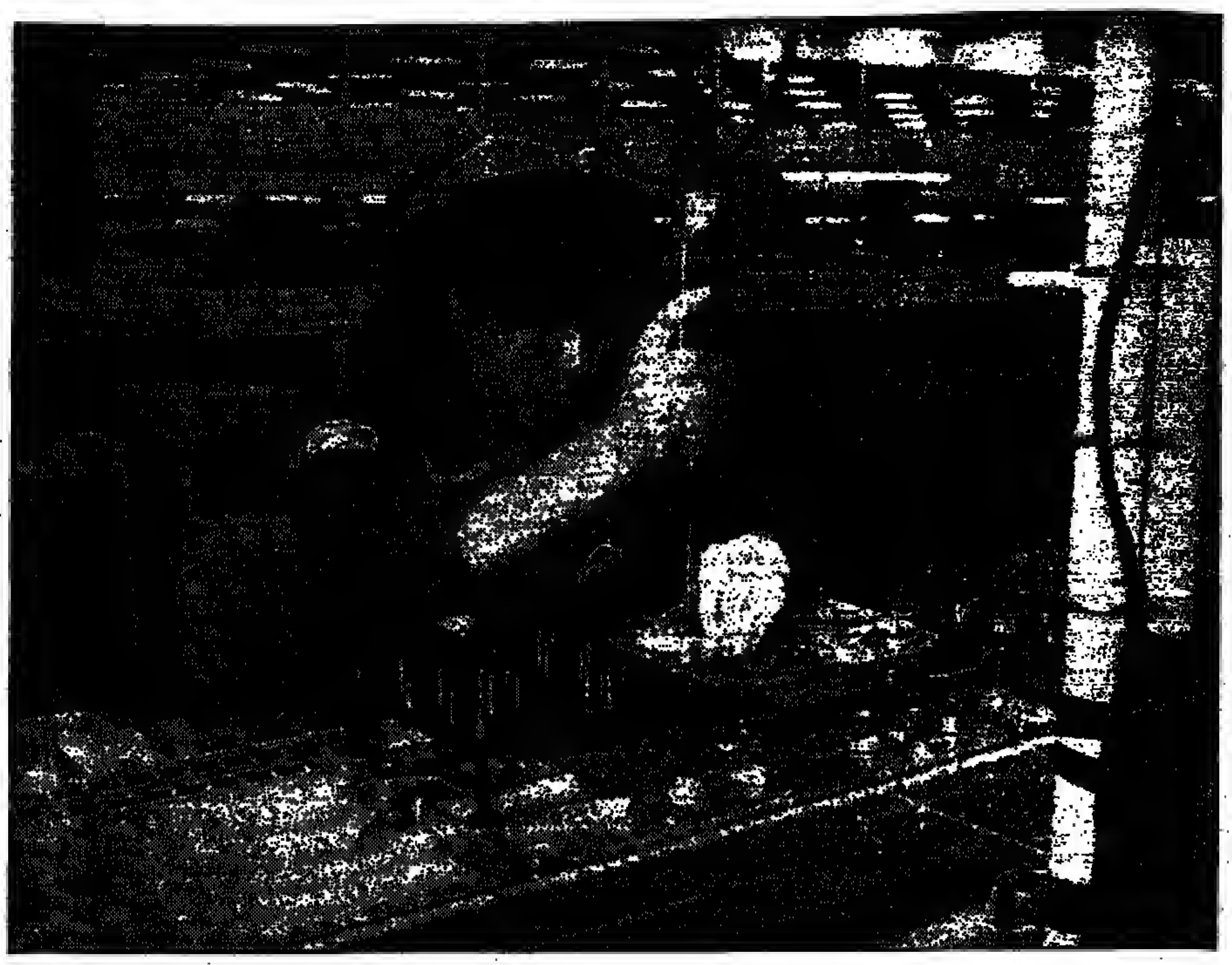
Malaysia's newly implemented Industrial Master Plan targets ruhber, palm oil, food, and timber industries as among its top priorities for diversification.

Malaysia, at the moment, processes less than 7 per cent of its raw materials.

So, for instance, government incentives will pour into enhancing the rubber tyre industry for export. The hecalmed palm oil industry will he given more money to expand into new markets for value-added oleochemicals and specialist human foods.

In particular, the American snack food industry looks tempting. Researchers at the Palm Oil Research Institute of Malaysia are looking at ways of atlering the fatty acid content of palm oil to render it more unsaturated, and thus more attractive to health-conscious Americans who currently buy soyabean oil to help ward off heart attacks.

Stephanie Yanchinski



Active trading on the Singapore International Monetary Exchange, Singapore grew stroingly through the 1970s as the centre of the Asian dollar market and has excelled at foreign exchange trading. It has also provided much of the funding for financial activities in Hong Kong

The floor of Hong Kong's newly unified Stock Exchange, which took over the business of four local exchanges earlier this year.

The domestic capital markets are continuing to grow after an explosion of business during the past two years. The new financial futures market in Hong Kong is also very promising. Meanwhile, foreign banks, stockbrokers and corporations continue to set np business in the territory. To many observers, it appears that financial and other servicee provide the key to Hong Kong's future after Chinese sovereignty comes into effect in 1997. Manufacturing industry is nevertheless the foundation of the territory's success.

Manufacturing Industries

Now Japan is looking over its shoulder at Korea

IF YOU run across a declining manufacturing industry in the West, you are likely to find it rising in the East. This observation used to be true mainly in reference to Japan but these days even Japan is looking over its shoulder, particularly at Korea, which is now challenging with large companies that are growing more sophisticated in both technology and international marketing.

The challenge from Asia is most firmly rooted in low-technology, labour-intensive industries. Now the shops of women stitching together shirts or soldering transistors on to a circuit board have given way to gigantic steel mills, semiconductor clean rooms and automobile assembly lines. If advanced technology is not developed, it is bought.

The myth that the East is only capable of copying inventions in the West is also now slowly crumbling in the wake of Japanese advances in technology and design. Japan has an unquestioned lead in manufacturing technology, which is a major reason why North America and Europe are anxious to receive Japanese investment.

Korea is also now producing some surprises. An IBM clone computer designed by Daewoo Telecom and marketed in the US by Leading Edge set the pace for the IBM clone market with a number of simple design innovations, plus an attractive price tag, that made an instant hit in the marketplace.

Design and technological invocation, however, are not the mainstay of the Korean success story. Rather it is continually moving up the technology curve, at a pace that has kept wages, productivity, and product quality constantly one step ahead of the international competition.

The latest example of this is the huge success of Hyundai Motor's Pony Excel in the US market. The car is not the most advanced on the market, far from it. But with prices starting at just US$5,000 it has been judged an excellent value already by over 100,000 consumers this year, pushing Hyundai past its first year sales goals in just nine months. That makes it the most successful foreign car ever introduced in the US market.

Despite Korea's startling recent advances, it is still the poorest on a per capita national income basis of Asia's four newly industrialised countries (NICS), which also include Taiwan, Hong Kong, and Singapore.

These countries ended World War II at a higher level of development than Korea, and for reasons stemming from their natural attributes and differing national development policies, they have followed a very different course of growth. They do not have the large companies that can move rapidly into sophisticated areas of industry and command, individually, significant sections of international markets.

Taiwan, the nearest competitor to Korea in terms of size (with a population of 19m compared to Korea's 42m), has been dominated by smaller companies in light industries that have shown a remarkable ability to shift gears in response to changing world market conditions.

A disgruntled buyer in Korea, disappointed by the inability to order in small lots, has frequently turned up happy in Taiwan.

Taiwan, however, may soon be following Korea into the export automobile industry.

Despite the lack of significant resources other than human ones, there is a willingness to work long hours to get ahead—a fact that is obvious from a quick walk through the factories of the Pacific Rim countries.

Japanese manufacturers have shown increasing interest in the island as a cheaper off-shore production base for automobiles. There is little question, however, of Taiwan mounting this drive under its own steam.

Hong Kong and Singapore, the wealthiest of the NICS, have developed on the back of huge entrepot business deriving from their strategic locations—Hong Kong as the gateway to China, and Singapore as the fulcrum between the Far East and Europe and as the centre of South-East Asia.

Both are free ports that welcome foreign investment. Development was led in Hong Kong by textiles, and little Hong Kong is now the largest exporter of textiles in the world, followed by Taiwan and Korea. Hong Kong has also emerged as a significant manufacturing centre for toys and electronic goods.

Textiles played a far less important role in Singapore than in the other NICs. Singapore developed an early lead in telecommunication equipment, office machines, generators, and petroleum products.

Refined petroleum products account for about one-third of Singapore's manufacturing output. Shipbuilding was also once an important business, although this has declined along with the world industry.

Singapore, with a population of just 2.5m people, is trying to position itself for the future by emphasising speciality areas, particularly in electronics, that require a more highly skilled labour force.

The fundamentals behind the growth of manufacturing in these Pacific Rim nations has been similar. They all lack significant resources other than human ones, yet they have proven that only human resources are necessary to prompt industrial growth.

All have been heavily influenced by Confucian rationality, based on a Chinese tradion which highly values education. This cultural background has resulted in a relatively educated labour force compared with other countries at similar levels of economic development.

There is the intangible too—the drive, the willingness to work long hours to get ahead, that is obvious from a quick walk through many factories in the region. In some of the NICS this takes the form of a nationalist drive to make a mark in the world.

This willingness to sacrifice, to postpone enjoyment of the good life, may one day be eroded. But this has not happened yet, and the challenge will continue.

Steven Butler

BHP is one of the fast-growing world companies of the Pacific Rim region. In 1985-86 it became the first Australian concern to earn more than A$1bn a year.

Keeping the shareholders happy

BHP is a company which dominates the Australian corporate scene. It has three times the market capitalisation of the internationally better-known News Corporation and is a major, if low-key player in the US resources area.

BHP's weighting in the main Australian share market barometer, the All Ordinaries Index, is such that its share price fluctuations are crucial to local share market movements, and when it reported recently for 1985-86 it became the first Australian concern to earn more than A$1bn in a year.

Familiar role

Yet it was only three years ago, after a century in business, that the steel and resources conglomerate became as familiar to the international investment community as a news corporation.

That was not all its own doing. It was the work of a West Australian entrepreneur, Mr Robert Holmes à Court, who indicated his indifference to the local share market'e valuation of the company by bidding for it.

Three years later, after initially being laughed out of Melbourne, the headquarters of the so-called Big Australian, Mr Holmes à Court surveys the BHP scene from the top of the share register and, finally, from the boardroom.

Newcomers

When Mr Holmes à Court took the staga on September 24 for the BHP annual meeting, just a week after being appointed a director along with the other newcomer, Mr John Elliott, he was placed at one end of tha 12 long-serving directors, and Mr Elliott was placed at the other.

However, between the two of them the newcomers speak for almost 50 per cent of BHP. Times change.

The applause that the record turn-out of 3,500 shareholders lavished on their new directors when they were introduced at the annual meeting showed that they attributed BHP's recent improved performance as much to their presence on the share register as to the normal motivation of management.

This is a charge that the management denies and, to be fair, it was BHP has been doing well for all those years that delivered its A$1bn surplus in 1985-86.

The company basically concentrates on three businesses, petroleum, minerals and steel and its effort to get a 30 per cent higher profit of A$1.01bn in the year when most large resources enterprises in the world were in recession, augurs well for the future.

For the first time more than half, 51 per cent, of the company's A$8.5bn of sales were achieved outside Australia.

BHP even managed to achieve an increased profit contribution from its petroleum division over the year of 4 per cent at A$10m although the impact of the lower world oil price hit it worst in the last quarter and will continue to be a dampener in the current year.

But this was more than offset by the performance of the mining profits, up 63 per cent to A$335m, and the gains achieved by the steel division, up 54 per cent to A$254m.

BHP chairman Sir James Balderstone told the recent annual meeting that first quarter profit of the company in the New Year was 40 per cent lower at A$182m, but that "directors caution against multiplying this result by four to calculate the year'a result.

"In fact, we look forward to better results, although it will be difficult to equal last year's profit unless trading conditions, particularly oil prices, improve."

BHP'a petroleum division profits come from its Bass Strait oil fields where it and joint venture partner Esso raised prodnction to record rates in 1985-86.

This division will also get significant profits from the North West Shelf gas project in the 1990s when it will be supplying 6m tonnes of liquefied natural gas a year to Japan.

The US oil and gas contribution to BHP will also be significant following its purchase of the monsanto oil company.

Minerals

In the minerals division, BHP's revenue comes from iron ore, coal, gold, copper, alumina, manganese and mineral sands. It owns major US coal concern Utah International and this year increased its stake in the Escondida, Chile, copper deposit to 60 per cent.

Escondida, which BHP owns with Rio Tinto Zinc Corporation (30 per cent) and Mitsubishi of Japan (10 per cent) is currently the largest high grade undeveloped copper ore body in the world.

On the steel side, after a dismal start to the 1980s, BHP Steel International last year achieved its second record profit in a row.

Robert Kennedy

Transpacific Aviation

Period of major expansion

"THOUGH we benefit as an airline from the British connection, from Hong Kong it is inevitable that we look east towards the United States," says Mr Rowland Cobbold, Cathay Pacific's marketing manager. "The trouble is, the routes are long, competition is fierce, and yields are low."

Like other major cities along the western rim of the Pacific, the powerful growth in trade and investment flows across the Pacific has led to major expansion of transpacific airline traffic. In 1985 alone, there was a 16 per cent growth in seat availability across the Pacific.

Not only have flights along the main artery—linking Japan with the US—continued to grow, but traffic to mainland China, Korea, Hong Kong, Taiwan and South East Asia has burgeoned as businessmen have turned to the Pacific for deals to replace those in the flagging economies of Europe and the Middle East.

Four airlines dominate the Pacific air routes—United Airways (which recently took over Pan-Am's Pacific routes) and Northwest Orient of the US, and Japan Airlines and All Nippon Airways of Japan.

These airlines together account for 83 per cent of the 74,000 seats available weekly across the Pacific, and provide direct evidence of the dominance of traffic between Japan and the US. In 1985, there were 237 flights a week between the US and Japan.

But the new-generation Boeing 747s, with their enhanced long-haul capabilities, have brought a number of other Asian carriers into the competition for transpacific passengers. Cathay Pacific, based in Hong Kong, now flies non-stop five times a week to Vancouver, travelling on to San Francisco, while Singapore Airlines now operates 15 flights a week via Tokyo to Los Angeles.

Philippine Airlines, Thai Airlines, CAAC from mainland China, as well as carriers from Korea, Taiwan and Malaysia, are now operating directly to the US.

Almost all have in the recent past added new routes, or are planning to introduce them in the near future. Northwest Orient, which currently operates 128 flights weekly across the Pacific, is focusing expansion efforts on South Korea, while Japan Airlines has recently begun flights to Atlanta as its sixth US gateway.

Singapore Airlines hopes to begin flights to Vancouver, Chicago and New York, while Thai Airlines has enhanced its services to Seattle. Cathay Pacific, which only began flying to North America in May 1983, has recently boosted frequencies to Vancouver and San Francisco, but plans no major additions until Boeing's new long-haul 747-400 comes into operation in 1989.

Pattern develops

In a pattern that is perhaps typical of a number of major Asian airlines, Cathay has emerged from a point in 1980 when it operated services only inside Asia to a point today where over 50 per cent of earnings are accounted for by long haul routes—to Europe, Australia and North America. London remains its main long haul route, but it is moot whether this will still be the case in five years from now.

"Transpacific traffic has to grow in importance," says Mr Cobbold: "the US population in Asia is bigger than the European population, and trade and investment flows between Asia and North America are much greater. There is no avoiding the fact that the US exerts much greater influence in Hong Kong than Europe does—in spite of the benefits we get from the British colonial connection."

Further impetus on transpacific routes is likely to come early in 1989, when the Boeing 747-400 comes into operation. This aircraft, which combines the seat capacity of the stretched upper-deck Boeing 747-300 with the long-haul capabilities of the 747-200, is expected to revolutionise the economics of transpacific operations.

This year is likely to be a better-than-usual year for carriers across the Pacific. A surge in tourism westward from the US, largely linked with worries about terrorism in Europe, has boosted aircraft capacity, as has the world expo in Vancouver, and the Asian Games in South Korea.

But most Asian carriers are nervous about the emergence of the powerful United Airlines as a major competitor in the Pacific. United has recently declared its intention to double its transpacific traffic by 1991. Main attention is evidently being focused on South Korea and Taiwan as well as Japan and Hong Kong.

If this is achieved at the expense of other airlines, then the balance sheets of some carriers are going to look rather sick two or three years from now.

Many carriers are nevertheless predicting passenger growth of over 10 per cent a year over the next few years — in part because of events like the Olympics in Seoul in 1988, but largely because of the strong economic growth still being recorded among the east Asian economies.

The continuing emergence of China as a trading partner and a destination for foreign investment under the open door policies of Deng Xiaoping is also likely to provide a strong stimulus for gateways like Tokyo and Hong Kong.

Even if traffic growth is shared equally, it appears likely that competition will remain fierce, and route profitability low. Mr Cobbold at Cathay probably reflects the views of many competitors when he notes: "Opening up our route to Vancouver was easier, because we were in competition with only one other carrier. Going to the west coast of the US was a matter of joining the rat race with everyone else."

David Dodwell

Cathay Pacific aircraft in Hong Kong—one of four airlines that dominate the highly-competitive transpacific aviation business

Communication Systems

Big investment in new networks

THE NEWLY-industrialising countries—the NICs—such as South Korea, Taiwan and Hong Kong regard modern telecommunications as essential to their rapidly developing economies. Despite jittery world markets, the NICs continue to invest in the most modern communication technologies, including underwater fibre-optic cables, to modernise their communication systems.

So in June, telecommunications utilities in Japan, South Korea and Hong Kong gave the go-ahead to construction of Asia's first long-distance underwater network.

The undersea "light highway" to stretch between Hong Kong and landfalls near Seoul and Tokyo, will cost US$200m and link-up with other fibre optic cables crossing the Pacific Ocean to the United States.

This heavy investment is expected to buy at least five times the existing telecommunications capacity and the clear, uninterrupted communications essential for electronic data transmission, and video conferencing which increasingly underpins modern business.

But the economic slump in the Asean region has forced some governments to slow down investment in revamping their telecommunications systems. This trend threatens to open up an even larger development gap between the industrialised NICs in the North, and more agriculturally based economies to the south.

For instance, Indonesia's economy has been one hit especially hard by the fall in oil prices, and has had to postpone putting out to tender a contract to install digital switches worth $1.2bn.

Graeme McDonald, managing director of Northern Telecoms Asean says "financing and price are more important" than acquiring the latest technology everywhere in the region except Brunei and Singapore.

"For the first time," he says, "customers are willing to forgo a great deal technologically for a very small price differential."

Even Singapore, locked in a fierce battle with Hong Kong to become the foremost financial centre in the Pacific Rim, has temporarily put on hold plans, which would have cost $250m, to substantially extend local its service. Singapore favours, for the time being, simply renewing a supply agreement with Fujitsu which is not so technologically ambitious.

Despite this setback the Singapore telecommunications system will probably remain the most advanced in Asia outside of Japan. Singapore Telecoms has installed, with Northern Telecoms equipment and help, one of the most sophisticated switching systems outside of North America.

Telecoms has just signed a S$90m deal with AT & T to expand Singapore international connections, with advanced digital equipment.

Telecoms spends an average of $600m a year on upgrading its sophisticated services which already offer an electronic mailbox service similar to Telecom Gold, called Telebox and Travelnet, a travel information and reservation service for travel agents and airlines.

As a result of all this expenditure, Singapore has more telephones per head of population than anywhere else in the Pacific Rim, 100 times the number in Indonesia.

"It is easier to phone Jakarta using CB radio," comments one telecommunications expert.

Companies setting up in the Pacific Rim, whether North or South, face one other major problem in addition to regional differences in service. Sandra Sully, management information services director for National Semiconductor says: "The cable circuits between the Far East and the United States are almost used up" and satellite communication can be unreliable.

This difficulty will be eased by the recent inauguration in Singapore of a $396m underwater cable linking Singapore to Indonesia, Sri Lanka, Djibouti, Saudia Arabia, Egypt, Italy and France. The new fibreoptic network linking Hong Kong, Korea, and Japan with the West Coast of the United States should be in place in 1988.

However, the cable will not reach Singapore until the 1990s, "too late," for some multinationals already based there. According to National Semiconductor's Sandra Sully, her company maintains its commercial edge by computerising as much of its activities as possible. This includes keeping close track of operations around the world through a massive computer hookup operating through local telecommunications systems.

The effectiveness of this system depends on rapid transmission of great volumes of customer data, factory reports and electronic mail.

So as co-ordinator in charge of facilitating such a service, Sully has been particularly frustrated at being denied access to satellite transmission for the two National Semiconductor factories manufacturing integrated circuits in Malaysia.

The Malaysian telecoms authority, she says, has also refused permission to use equipment which would double the speed of sending data down the line, and thus halve National Semiconductor's telecommunications costs.

"These are our two largest factories in the region," says Sully. "We are a very large employer," and yet "it is incomprehensible to us why the Malaysians are so reluctant" to provide better service.

However, the case of National Semiconductor in Malaysia illustrates a dilemma not faced by the more industrialised NICs up north. With few multinationals based in Malaysia it may be difficult to justify investing huge sums in upgrading the service, especially during the current recession which may see cuts in government spending of as much as 70 per cent in every department announced next month.

The solution, for Dr Arthur Owen, of the American consulting firm, Arthur D. Little, is to "liberalise" and "privatise." A more effective telecommunications infrastructure will be put into place only "when the telecommunications administrations are free to be more market-orientated and to adopt methods of management more appropriate to running a commercial high technology business."

Stephanie Yanchinski

● DIVERSITY in exports—from cut flowers to wool: Above, flowers are loaded on an Air New Zealand flight for Japan, which buys the largest share (31 per cent) of New Zealand's flower exports. Orchid sales alone amount to NZ$4m a year.

Horticultural exports from New Zealand are now worth more than NZ$700m a year. Kiwifruit remains the glamour crop of the industry. Its phenomenal success in world markets has made several millionaires in New Zealand and it has now become the country's top export crop, earning NZ$228m in the year up to March 1986.

● Right: buyers at the Wiri Wool Store auctions, just outside Auckland. The diversity of the Pacific Rim's exports is indicated by the fact that it produces 62 per cent of the world's wool, 87 per cent of natural rubber and 94 per cent of all natural silk.

The Asia-Pacific region has long been too vast to be a real geo-political or economic entity. Now, due to the impact of Pacific Rim industrialisation and the distance-annihilating capacity of modern communications, it is emerging as potentially the most dynamic economic region in the world.

There is an increasing body of opinion that the region will play the same central role in the 21st century—or sooner—as did Europe and the Atlantic during the Industrial Revolution and in the 20th century.

Pointers to the emergence of this dynamic focal point of global economy are:

● The 57 countries and island states in the Asia-Pacific region contain 2.4bn people—more than half the world's population — and produce almost half its total wealth.

● Since 1979, Asia-Pacific countries have between them accounted for over half the world's total economic growth.

● General Agreement on Tariff and Trade (GATT) figures showed in 1984 that trans-Pacific trade surpassed trans-Atlantic trade for the first time.

● GATT figures on the 20 leading exporters and importers for the same year contained six Pacific Rim countries which had not featured on the list in 1973. They were the People's Republic of China, Republic of Korea, Taiwan, Hong Kong, Singapore and Mexico.

When other areas of the world experienced recession in the 1970s and '80s due to soaring oil prices, inflation and sluggish growth, the East Asian countries of the Pacific region went against the trend and became economic pacesetters.

Organisations such as the Pacific Basin Economic Council (PBEC) and the Pacific Economic Co-operation Conference, (PECC) both of which were formed in the late 1960s, have helped create the environment of freer trade that now exists in the region.

Role of the Superpowers

Delicate balance prevails

FOR EUROPEANS and no doubt most Americans, the horrific prospect of a third world war gains considerable immediacy not just because it would be a nuclear conflict but also because it is likely to break out in the European theatre.

That, et least, is the received wisdom, even making allowances for the widely canvassed alternative possibility that a local conflict in a strategie area like the Gulf might equally escalate into a global affair.

Less well understood in the west is the delicate balance which prevails in the Pacific, and its importance to world security. Yet, as any cursory examination shows, this massive "lake" has all the ingredients necessary to turn superpower rivalry into something much more frightening.

In the first place, the Pacific is an area where the two big superpowers confront each other directly. Already, two bloody land wars in the region since the Second World War, in Korea and Vietnam, have entailed superpower involvement, while other Asian conflicts have occasioned some sort of superpower intervention. There is every reason to suppose this will continne.

Secondly, the world's largest armed forces are all in countries with interests in the Pacific. Apart from the US and the Soviet Union, they include, most importantly, China and Vietnam, but also North Korea, Sonth Korea and India.

Thirdly, the superpower balance is asymmetrical compared to Europa. The US presance is predominantly naval, and conducted through numerous bilateral arrangements with countries like South Korea, the Philippines and Australia, rather than more complicated and less inhibiting Nato-type alliances.

The Soviet presence, on the other hand, depends more on land-based forces, most of them nuclear rather than conventional — although latterly Moscow's pacts with Vietnam have given it greater air and naval penetration of the region.

According to some analysts, the 1980s have seen a vigorous US military push in the Pacific, reflecting the Reagan Administration's perception of the country as e "Pacific nation" and of the Pacific basin, with all its economic potential, as the region of the future.

On this analysis, the introduction of nuclear weapons like the Tomahawk sea-launched cruise missile and the submarine-based Trident missile system represent a determined attempt to maintain nnclear and conventional superiority over the Soviet Union with the aim of winning a global or theatre nuclear war against Moscow.

Against this, Washington hardliners maintain that there has been e growing Soviet preseoce in the region over recent years and that this must be countered. Apart from its home-based nuclear weapons, which particularly worry countries like China and Japan, they point to the Soviet Union's Pacific fleet, which is said to have expanded its reach, and they say Moscow's diplomatic and commercial efforts are even more significant.

Just how seriously this is viewed is difficult to gauge. Certainly it would be surprising if Washington was not concerned at the Soviet effort in the region, both in the north and the south Pacific.

Overtures

In the north this has included clear overtures to Peking which, if they sueceed in repairing the long-standing Sino-Soviet rift, will alter most preceptions about east and south-east Asia. It has also included the prospect of improved Soviet relations with Japan, Asia's economic giant.

At the same time Washington has been constantly worried about tensions between North and South Korea and displayed growing concern over the Communist guerrilla insurgency in the Philippines.

No clear links have been established between the Filipino rebels and Moscow (or Peking for that matter), but the insurgency poses a threat to the US's strategically important air and naval bases in the country, which have long been a domestic political issue in the Philippines anyway.

The South Pacific region, for its part, has seen a concerted Soviet effort to reach diplomatic, cultural or commercial agreements with some of the many island states in the region. A controversial one-year fishing agreement with Kiribati (formerly the Gilbert Islands) shocked many. Fiji has held talks with the Soviets, and Vanuatu (formerly the New Hebrides) has also received approaches.

Moscow's own general perceptions were spelled ont most clearly at the end of July by Mr Mikhail Gorbachev, the Soviet leader, in a speech delivered in Vladivostok. He used the occasion to remind the world that the Soviet Union was an Asia-Pacific power as well as a Euro-Atlantic one.

As if to allay Australian fears, Mr Eduard Shevardnadze, the Soviet foreign minister, is said to have told Mr Bill Hayden, the Australian foreign minister in New York in September, that Moscow would do nothing to incite superpower rivalry in the Pacific region.

The US has also tried to play down its known worries. At a recent conference in Washington, Mr Gaston Sigur, US assistant secretary of state for East Asian and Pacific affairs, said Soviet attempts to expand its commercial and diplomatic contacts among the Pacific island nations had not alarmed or distressed Washington and had not been well received by the countries concerned.

One clear sign of US concern, however, is its recent commitment to establish diplomatic ties with Vanuatu as part of a wider push to improve relations with the Melanesian countries.

Another is the attempt to negotiate a fishing deal between the US and countries of the South Pacific forum, a grouping of Australia, New Zealand and 11 Sonth Pacific island states.

Indeed, many believe it is the failure of the US fishing industry to reach an understanding on access to these countries' tuna resources which has fuelled superpower rivalry in the region.

In the South Pacific, two other factors have also assumed importance in the strategic equation. One is the effective collapse of the Anzus alliance, the 1951 defence treaty which linked the US, Australia and New Zealand.

This followed the decision of the labour government led by prime minister David Lange not to allow nuclear-armed or nuclear-powered ships into New Zealand ports.

The US, as a matter of defence policy, refuses to reveal whether particular ships are carrying nuclear weapons, and this is what lies behind the erosion of Anzus. After protracted exchanges the US announced in July that Washington and Wellington had to part company.

The net effect in strict military terms has yet to be demonstrated. A leg of the tripod has vanished, and the US feels western security has been weakened. New Zealand says its defences have not been impaired. Australia has been left in an awkward position between two friends.

The second important factor concerns the presence of another nuclear power in the region, France. Paris has crossed swords with Wellington over its nuclear weapons testing in Mururoa atoll—a clash demonstrated most spectacularly in the Rainbow Warrior affair, in which French agents destroyed the anti-nuclear ship belonging to the protest group Greenpeace as it lay in e New Zealand port.

The countries of the South Pacific forum have meanwhile agreed that their region should form a nuclear-free zone. Some differences remain, but the idea has aroused interest in other parts of the world and, perhaps predictably, angered France, which has refused to participate.

Just as significant are the complications springing from France's policy towards its colonies in the South Pacific, and in particular New Caledonia. An apparent change of policy on New Caledonia's independence by the government of Jacques Chirac has aroused the ire of Australia as well as South Pacific island nations.

In the big security picture, such developments probably count for less in determining the role of the Pacific strategic balance in global peace than direct relations with important countries like China and Japan. To most analysts, it is these which will ultimately determine the chances of a nuclear holocaust.

Chris Sherwell

The 1980s have seen a vigorous US military push in the Pacific, say analysts. Above: A landing on a US aircraft carrier during military exercises

● President Ronald Reagan of the US and Prime Minister Robert Hawke of Australia will use a satellite link-up for the opening of the Pac Rim symposium in Perth on Sunday, November 16 1968

Hopes for a new economic alliance

A PACIFIC region economic community, similar to Europe's comon market, could result from the important PacRim '86 Western Australia, in Novembe conference to be held in Perth, Western Australia, in November.

This is the view of the Premier of Western Australia, Mr Brian Burke, who believes that if the positive aspects of the European Economic Community could be encompassed in a Pacific trade alliance it would be a great boost for Australia's future.

Many prominent international businessmen and government representatives are attending PacRim, which is shaping up as one of the most important economic conference held in Australia. Mr George Bush, US Vice President, has indicated he will attend the event. PacRim will explore the opportunities presented to Pacific Basin countries by the shift in world economic power towards the Asia-Pacific region.

About 300 delegates and speakers have already confirmed their attendance at the conference, which will be opened by President Reagan in a satellite hook-up with Washington.

"PacRim is a brilliant spin-off from the America's Cup defence, which already is bringing thousands of noted people to Perth," says Mr Burke.

"West Australian businessmen will have an ideal opportunity to meet world business and industry leaders who are keen to expand the economy of the Asia-Pacific region.

"There is a real chance that a new economic alliance could result from PacRim. A common market or similar arrangement would be of enormous benefit to Australia."

The chairman of PacRim, Mr Gary Pearce, said eleven nations in the Pacific region had confirmed that they would be operating national suites at the conference.

The suites would be used by delegates and businessmen to explore on-going trade and investment possibilities.

PacRim is presented by the Western Australian Development Corporation, with the aims of promoting trade, investment and finance opportunities between Pacific Rim countries.

Arena of growth

CONTINUED FROM PAGE 1

The transition of power, in the next few years, from one generation of leaders to another in Singapore and Indonesia carries some risks of instability.

There is no guarantee that Deng's reforms will survive him in China, although the sheer power of consumer politics may have set in motion an irreversible process of change. Despite the flexibility shown by the Chinese leadership over the issue of Hong Kong after British sovereignty ends in 1997, Peking's claim to Taiwan could still prove a flashpoint in the future.

Half a million troops still face each other across the ceasefire line in Korea and it is always possible that the growing military rivalry between the US and the Soviet Union in the vast waters of the Pacific could provoke a confrontation, intentional or otherwise.

These are unlikely scenarios, however. What has governed the broad sweep of events around the Pacific since the end of the Second World war has been enterprise and pragmatism. There is no reason to suppose that this will change in the foreseeable future.

Mr Yasuhiro Nakasone, the Prime Minister of Japan: he uses a preferred phrase of "realistic graduation" in discussions on cohesive relationships and co-operation between Pacific Rim nations. Japan has, however, been a mere than willing partner in the loosely-structured organisations such as the Pacific Basin Economic Council which unify trade arrangements